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THE PRECONCEPTIONS OF ECONOMIC
SCIENCE.

I.

IN an earlier paper* the view has been expressed that the economics handed down by the great writers of a past generation is substantially a taxonomic science. A view of much the same purport, so far as concerns the point here immediately in question, is presented in an admirably lucid and cogent way by Professor Clark in a recent number of this journal.† There is no wish hereby to burden Professor Clark with a putative sponsorship of any ungraceful or questionable generalizations reached in working outward from this main position, but expression may not be denied the comfort which his unintended authentication of the main position affords. It is true, Professor Clark does not speak of taxonomy, but employs the term

* "Why is Economics not an Evolutionary Science?" *Quarterly Journal of Economics*, July, 1898.

† "The Future of Economic Theory," *Ibid.*, October, 1898.

"statics," which is perhaps better suited to his immediate purpose. Nevertheless, in spite of the high authority given the term "statics," in this connection, through its use by Professor Clark and by other writers eminent in the science, it is fairly to be questioned whether the term can legitimately be used to characterize the received economic theories. The word is borrowed from the jargon of physics, where it is used to designate the theory of bodies at rest or of forces in equilibrium. But there is much in the received economic theories to which the analogy of bodies at rest or of forces in equilibrium will not apply. It is perhaps not too much to say that those articles of economic theory that do not lend themselves to this analogy make up the major portion of the received doctrines. So, for instance, it seems scarcely to the point to speak of the statics of production, exchange, consumption, circulation. There are, no doubt, appreciable elements in the theory of these several processes that may fairly be characterized as static features of the theory; but the doctrines handed down are after all, in the main, theories of the process discussed under each head, and the theory of a process does not belong in statics. The epithet "statical" would, for instance, have to be wrenched somewhat ungently to make it apply to Quesnay's classic *Tableau Économique* or to the great body of Physiocratic speculations that take their rise from it. The like is true for Books II. and III. of Adam Smith's *Wealth of Nations*, as also for considerable portions of Ricardo's work, or, to come down to the present generation, for much of Marshall's *Principles*, and for such a modern discussion as Smart's *Studies in Economics*, as well as for the fruitful activity of the Austrians and of the later representatives of the Historical School.

But to return from this terminological digression. While economic science in the remoter past of its history has been mainly of a taxonomic character, later

writers of all schools show something of a divergence from the taxonomic line and an inclination to make the science a genetic account of the economic life process, sometimes even without an ulterior view to the taxonomic value of the results obtained. This divergence from the ancient canons of theoretical formulation is to be taken as an episode of the movement that is going forward in latter-day science generally; and the progressive change which thus affects the ideals and the objective point of the modern sciences seems in its turn to be an expression of that matter-of-fact habit of mind which the prosy but exacting exigencies of life in a modern industrial community breed in men exposed to their unmitigated impact.

In speaking of this matter-of-fact character of the modern sciences it has been broadly characterized as "evolutionary"; and the evolutionary method and the evolutionary ideals have been placed in antithesis to the taxonomic methods and ideals of pre-evolutionary days. But the characteristic attitude, aims, and ideals which are so designated here are by no means peculiar to the group of sciences that are professedly occupied with a process of development, taking that term in its most widely accepted meaning. The latter-day inorganic sciences are in this respect like the organic. They occupy themselves with "dynamic" relations and sequences. The question which they ask is always, What takes place next, and why? Given a situation wrought out by the forces under inquiry, what follows as the consequence of the situation so wrought out? or what follows upon the accession of a further element of force? Even in so non-evolutionary a science as inorganic chemistry the inquiry consistently runs on a process, an active sequence, and the value of the resulting situation as a point of departure for the next step in an interminable cumulative sequence. The last step in the chemist's experimental inquiry into any substance is, What comes of the substance determined? What will it

do? What will it lead to, when it is made the point of departure in further chemical action? There is no ultimate term, and no definitive solution except in terms of further action. The theory worked out is always a theory of a genetic succession of phenomena, and the relations determined and elaborated into a body of doctrine are always genetic relations. In modern chemistry no cognizance is taken of the honorific bearing of reactions or molecular formulæ. The modern chemist, as contrasted with his ancient congener, knows nothing of the worth, elegance, or cogency of the relations that may subsist between the particles of matter with which he busies himself, for any other than the genetic purpose. The spiritual element and the elements of worth and propensity no longer count. Alchemic symbolism and the hierarchical glamour and virtue that once hedged about the nobler and more potent elements and reagents are almost altogether a departed glory of the science. Even the modest imputation of propensity involved in the construction of a scheme of coercive normality, for the putative guidance of reactions, finds little countenance with the later adepts of chemical science. The science has outlived that phase of its development at which the taxonomic feature was the dominant one.

In the modern sciences, of which chemistry is one, there has been a gradual shifting of the point of view from which the phenomena that the science treats of are apprehended and passed upon; and to the historian of chemical science this shifting of the point of view must be a factor of great weight in the development of chemical knowledge. Something of a like nature is true for economic science; and it is the aim here to present, in outline, some of the successive phases that have passed over the spiritual attitude of the adepts of the science, and to point out the manner in which the transition from one point of view to the next has been made.

As has been suggested in the paper already referred to, the characteristic spiritual attitude or point of view of a given generation or group of economists is shown not so much in their detail work as in their higher syntheses — the terms of their definitive formulations — the grounds of their final valuation of the facts handled for purpose of theory. This line of recondite inquiry into the spiritual past and antecedents of the science has not often been pursued seriously or with singleness of purpose, perhaps because it is, after all, of but slight consequence to the practical efficiency of the present-day science. Still, not a little substantial work has been done towards this end by such writers as Hasbach, Oncken, Bonar, Cannan, and Marshall. And much that is to the purpose is also due to writers outside of economics, for the aims of economic speculation have never been insulated from the work going forward in other lines of inquiry. As would necessarily be the case, the point of view of economists has always been in large part the point of view of the enlightened common sense of their time. The spiritual attitude of a given generation of economists is therefore in good part a special outgrowth of the ideals and preconceptions current in the world about them.

So, for instance, it is quite the conventional thing to say that the speculations of the Physiocrats were dominated and shaped by the preconception of Natural Rights. Account has been taken of the effect of natural-rights preconceptions upon the Physiocratic schemes of policy and economic reform, as well as upon the details of their doctrines.* But little has been said of the significance of these preconceptions for the lower courses of the Physiocrats' theoretical structure. And yet that habit of mind to which the natural-rights view is wholesome and adequate is answerable both for the point of departure and

* See, for instance, Hasbach, *Allgemeine philosophische Grundlagen der von François Quesnay und Adam Smith begründeten politischen Oekonomie*.

for the objective point of the Physiocratic theories, both for the range of facts to which they turned and for the terms in which they were content to formulate their knowledge of the facts which they handled. The failure of their critics to place themselves at the Physiocratic point of view has led to much destructive criticism of their work; whereas, when seen through Physiocratic eyes, such doctrines as those of the net product and of the barrenness of the artisan class appear to be substantially true.

The speculations of the Physiocrats are commonly accounted the first articulate and comprehensive presentation of economic theory that is in line with later theoretical work. The Physiocratic point of view may, therefore, well be taken as the point of departure in an attempt to trace that shifting of aims and norms of procedure that comes into view in the work of later economists when compared with earlier writers.

Physiocratic economics is a theory of the working-out of the Law of Nature (*loi naturelle*) in its economic bearing, and this Law of Nature is a very simple matter.

Les lois naturelles sont ou physiques ou morales.

On entend ici, par loi physique, le cours réglé de tout événement physique de l'ordre naturel, évidemment le plus avantageux au genre humain.

On entend ici, par loi morale, la règle de toute action humaine de l'ordre morale, conforme à l'ordre physique évidemment le plus avantageux au genre humain.

Ces lois forment ensemble ce qu'on appelle la loi naturelle. Tous les hommes et toutes les puissances humaines doivent être soumis à ces lois souveraines, instituées par l'Être-Suprême: elles sont immuables et irréfragables, et les meilleures lois possible.*

The settled course of material facts tending beneficently to the highest welfare of the human race,—this is the final term in the Physiocratic speculations. This is the touchstone of substantiality. Conformity to these “immutable

* Quesnay, *Droit Naturel*, ch. v. (Ed. Daire, *Physiocrates*, pp. 52-53).

and unerring" laws of nature is the test of economic truth. The laws are immutable and unerring, but that does not mean that they rule the course of events with a blind fatality that admits of no exception and no divergence from the direct line. Human nature may, through infirmity or perversity, wilfully break over the beneficent trend of the laws of nature; but to the Physiocrat's sense of the matter the laws are none the less immutable and irrefragable on that account. They are not empirical generalizations on the course of phenomena, like the law of falling bodies or of the angle of reflection; although many of the details of their action are to be determined only by observation and experience, helped out, of course, by interpretation of the facts of observation under the light of reason. So, for instance, Turgot, in his *Réflexions*, empirically works out a doctrine of the reasonable course of development through which wealth is accumulated and reaches the existing state of unequal distribution; so also his doctrines of interest and of money. The immutable natural laws are rather of the nature of canons of conduct governing nature than generalizations of mechanical sequence, although in a general way the phenomena of mechanical sequence are details of the conduct of nature working according to these canons of conduct. The great law of the order of nature is of the character of a propensity working to an end, to the accomplishment of a purpose. The processes of nature working under the quasi-spiritual stress of this immanent propensity may be characterized as nature's habits of life. Not that nature is conscious of its travail, and knows and desires the worthy end of its endeavors; but for all that there is a quasi-spiritual nexus between antecedent and consequent in the scheme of operation in which nature is engaged. Nature is not uneasy about interruptions of its course or occasional deflections from the direct line through an untoward conjunction of mechanical causes, nor does the validity of

the great overruling law suffer through such an episode. The introduction of a mere mechanically effective causal factor cannot thwart the course of nature from reaching the goal to which she animistically tends. Nothing can thwart this teleological propensity of nature except counter-activity or divergent activity of a similarly teleological kind. Men can break over the law, and have short-sightedly and wilfully done so; for men are also agents who guide their actions by an end to be achieved. Human conduct is activity of the same kind — on the same plane of spiritual reality or competency — as the course of nature, and it may therefore traverse the latter. The remedy for this short-sighted traffic of misguided human nature is enlightenment,—“instruction publique et privée des lois de l'ordre naturel.” *

The nature in terms of which all knowledge of phenomena—for the present purpose economic phenomena—is to be finally synthesized is, therefore, substantially of a quasi-spiritual or animistic character. The laws of nature are in the last resort teleological: they are of the nature of a propensity. The substantial fact in all the sequences of nature is the end to which the sequence naturally tends, not the brute fact of mechanical compulsion or causally effective force. Economic theory is accordingly the theory (1) of how the efficient causes of the *ordre naturel* work in an orderly unfolding sequence, guided by the underlying natural laws—the propensity immanent in nature to establish the highest well-being of mankind, and (2) of the conditions imposed upon human conduct by these natural laws in order to reach the ordained goal of supreme human welfare. The conditions so imposed on human conduct are as definitive as the laws and the order by force of which they are imposed; and the theoretical conclusions reached, when these laws and this order are known, are therefore expressions

* Quesnay, *Droit Naturel*, ch. v. (Ed. Daire, *Physiocrates*, p. 53).

of absolute economic truth. Such conclusions are an expression of reality, but not necessarily of fact.

Now, the objective end of this propensity that determines the course of nature is human well-being. But economic speculation has to do with the workings of nature only so far as regards the *ordre physique*. And the laws of nature in the *ordre physique*, working through mechanical sequence, can only work out the physical well-being of man, not necessarily the spiritual. This propensity to the physical well-being of man is therefore the law of nature to which economic science must bring its generalizations, and this law of physical beneficence is the substantial ground of economic truth. Wanting this, all our speculations are vain; but having its authentication they are definitive. The great, typical function, to which all the other functioning of nature is incidental if not subsidiary, is accordingly that of the alimentation, nutrition of mankind. In so far, and only in so far as the physical processes contribute to human sustenance and fulness of life, can they, therefore, further the great work of nature. Whatever processes contribute to human sustenance by adding to the material available for human assimilation and nutrition, by increasing the substance disposable for human comfort, therefore count towards the substantial end. All other processes, however serviceable in other than this physiological respect, lack the substance of economic reality. Accordingly, human industry is productive, economically speaking, if it heightens the effectiveness of the natural processes out of which the material of human sustenance emerges; otherwise not. The test of productivity, of economic reality in material facts, is the increase of nutritive material. Whatever employment of time or effort does not afford an increase of such material is unproductive, however profitable it may be to the person employed, and however useful or indispensable it may be to the com-

munity. The type of such productive industry is the husbandman's employment, which yields a substantial (nutritive) gain. The artisan's work may be useful to the community and profitable to himself, but its economic effect does not extend beyond an alteration of the form in which the material afforded by nature already lies at hand. It is formally productive only, not really productive. It bears no part in the creative or generative work of nature; and therefore it lacks the character of economic substantiality. It does not enhance nature's output of vital force. The artisan's labors, therefore, yield no net product, whereas the husbandman's labors do.

Whatever constitutes a material increment of this output of vital force is wealth, and nothing else is. The theory of value contained in this position has not to do with value according to men's appraisement of the valuable article. Given items of wealth may have assigned to them certain relative values at which they exchange, and these conventional values may differ more or less widely from the natural or intrinsic value of the goods in question; but all that is beside the substantial point. The point in question is not the degree of predilection shown by certain individuals or bodies of men for certain goods. That is a matter of caprice and convention, and it does not directly touch the substantial ground of the economic life. The question of value is a question of the extent to which the given item of wealth forwards the end of nature's unfolding process. It is valuable, intrinsically and really, in so far as it avails the great work which nature has in hand.

Nature, then, is the final term in the Physiocratic speculations. Nature works by impulse and in an unfolding process, under the stress of a propensity to the accomplishment of a given end. This propensity, taken as the final cause that is operative in any situation, furnishes the basis on which to co-ordinate all our knowledge of those

efficient causes through which Nature works to her ends. For the purpose of economic theory proper, this is the ultimate ground of reality to which our quest of economic truth must penetrate. But back of Nature and her works there is, in the Physiocratic scheme of the universe, the Creator, by whose all-wise and benevolent power the order of nature has been established in all the strength and beauty of its inviolate and immutable perfection. But the Physiocratic conception of the Creator is essentially a deistic one: he stands apart from the course of nature which he has established, and keeps his hands off. In the last resort, of course, "*Dieu seul est producteur. Les hommes travaillent, recueillent, économisent, conservent; mais économiser n'est pas produire.*"* But this last resort does not bring the Creator into economic theory as a fact to be counted with in formulating economic laws. He serves a homiletical purpose in the Physiocratic speculations rather than fills an office essential to the theory. He comes within the purview of the theory by way of authentication rather than as a subject of inquiry or a term in the formulation of economic knowledge. The Physiocratic God can scarcely be said to be an economic fact, but it is otherwise with that nature whose ways and means constitute the subject-matter of the Physiocratic inquiry.

When this natural system of the Physiocratic speculations is looked at from the side of the psychology of the investigators, or from that of the logical premises employed, it is immediately recognized as essentially animistic. It runs consistently on animistic ground; but it is animism of a high grade,—highly integrated and enlightened, but, after all, retaining very much of that primitive force and naïveté which characterize the animistic explanations of phenomena in vogue among the untroubled bar-

* Dnpont de Nemours, *Correspondance avec J.-B. Say* (Ed. Daire, *Physiocrates*, première partie, p. 390).

barians. It is not the disjected animism of the vulgar, who see a wilful propensity—often a wilful perversity—in given objects or situations to work towards a given outcome, good or bad. It is not the gambler's haphazard sense of fortuitous necessity or the housewife's belief in lucky days, numbers or phases of the moon. The Physiocrat's animism rests on a broader outlook, and does not proceed by such an immediately impulsive imputation of propensity. The teleological element—the element of propensity—is conceived in a large way, unified and harmonized, as a comprehensive order of nature as a whole. But it vindicates its standing as a true animism by never becoming fatalistic and never being confused or confounded with the sequence of cause and effect. It has reached the last stage of integration and definition, beyond which the way lies downward from the high, quasi-spiritual ground of animism to the tamer levels of normality and causal uniformities.

There is already discernible a tone of dispassionate and colorless "tendency" about the Physiocratic animism, such as to suggest a wavering towards the side of normality. This is especially visible in such writers as the half-protestant Turgot. In his discussion of the development of farming, for instance, Turgot speaks almost entirely of human motives and the material conditions under which the growth takes place. There is little metaphysics in it, and that little does not express the law of nature in an adequate form. But, after all has been said, it remains true that the Physiocrat's sense of substantiality is not satisfied until he reaches the animistic ground; and it remains true also that the arguments of their opponents made little impression on the Physiocrats so long as they were directed to other than this animistic ground of their doctrine. This is true in great measure even of Turgot, as witness his controversy with Hume. Whatever criticism is directed against them on other grounds is met

with impatience, as being inconsequential, if not disingenuous.*

To an historian of economic theory the source and the line of derivation whereby this precise form of the order-of-nature preconception reached the Physiocrats are of first-rate importance; but it is scarcely a question to be taken up here,—in part because it is too large a question to be handled here, in part because it has met with adequate treatment at more competent hands,† and in part because it is somewhat beside the immediate point under discussion. This point is the logical, or perhaps better the psychological, value of the Physiocrats' preconception, as a factor in shaping their point of view and the terms of their definitive formulation of economic knowledge. For this purpose it may be sufficient to point out that the preconception in question belongs to the generation in which the Physiocrats lived, and that it is the guiding norm of all serious thought that found ready assimilation into the common-sense views of that time. It is the characteristic and controlling feature of what may be called the common-sense metaphysics of the eighteenth century, especially so far as concerns the enlightened French community.

It is to be noted as a point bearing more immediately on the question in hand that this imputation of final causes to the course of phenomena expresses a spiritual attitude which has prevailed, one might almost say, always and everywhere, but which reached its finest, most effective development, and found its most finished expression, in the eighteenth-century metaphysics. It is nothing recondite; for it meets us at every turn, as a matter of course, in the vulgar thinking of to-day,—in the pulpit and in the market place,—although it is not so ingenuous,

* So, for instance, the concluding chapters of La Rivière's *Ordre Naturel des Sociétés Politiques*.

† E.g., Hasbach, *loc. cit.*; Bonar, *Philosophy and Political Economy*, Book II.; Ritchie, *Natural Rights*.

nor does it so unquestionedly hold the primacy in the thinking of any class to-day as it once did. It meets us likewise, with but little change of features, at all past stages of culture, late or early. Indeed, it is the most generic feature of human thinking, so far as regards a theoretical or speculative formulation of knowledge. Accordingly, it seems scarcely necessary to trace the lineage of this characteristic preconception of the era of enlightenment, through specific channels, back to the ancient philosophers or the jurists of the empire. Some of the specific forms of its expression — as, for instance, the doctrine of Natural Rights — are no doubt traceable through mediæval channels to the teachings of the ancients; but there is no need of going over the brook for water, and tracing back to specific teachings the main features of that habit of mind or spiritual attitude of which the doctrines of Natural Rights and the Order of Nature are specific elaborations only. This dominant habit of mind came to the generation of the Physiocrats on the broad ground of group inheritance, not by lineal devolution from any one of the great thinkers of past ages who had thrown its deliverances into a similarly competent form for the use of his own generation.

In leaving the Physiocratic discipline and the immediate sphere of Physiocratic influence for British ground, we are met by the figure of Hume. Here, also, it will be impracticable to go into details as to the remoter line of derivation of the specific point of view that we come upon on making the transition, for reasons similar to those already given as excuse for passing over the similar question with regard to the Physiocratic point of view. Hume is, of course, not primarily an economist; but that placid unbeliever is none the less a large item in any inventory of eighteenth-century economic thought. Hume was not gifted with a facile acceptance of the group inheritance

that made the habit of mind of his generation. Indeed, he was gifted with an alert, though somewhat histrionic, scepticism touching everything that was well received. It is his office to prove all things, though not necessarily to hold fast that which is good.

Aside from the strain of affectation discernible in Hume's scepticism, he may be taken as an accentuated expression of that characteristic bent which distinguishes British thinking in his time from the thinking of the Continent, and more particularly of the French. There is in Hume, and in the British community, an insistence on the prosy, not to say the seamy, side of human affairs. He is not content with formulating his knowledge of things in terms of what ought to be or in terms of the objective point of the course of things. He is not even content with adding to the teleological account of phenomena a chain of empirical, narrative generalizations as to the usual course of things. He insists, in season and out of season, on an exhibition of the efficient causes engaged in any sequence of phenomena; and he is sceptical — irreverently sceptical — as to the need or the use of any formulation of knowledge that outruns the reach of his own matter-of-fact, step-by-step argument from cause to effect.

In short, he is too modern to be wholly intelligible to those of his contemporaries who are most neatly abreast of their time. He out-Britishes the British; and, in his footsore quest for a perfectly tame explanation of things, he finds little comfort, and indeed scant courtesy, at the hands of his own generation. He is not in sufficiently naïve accord with the range of preconceptions then in vogue.

But, while Hume may be an accentuated expression of a national characteristic, he is not therefore an untrue expression of this phase of British eighteenth-century thinking. The peculiarity of point of view and of method for which he stands has sometimes been called the critical

attitude, sometimes the inductive method, sometimes the materialistic or mechanical, and again, though less aptly, the historical method. Its characteristic is an insistence on matter of fact.

This matter-of-fact animus that meets any historian of economic doctrine on his introduction to British economics is a large, but not the largest, feature of the British scheme of early economic thought. It strikes the attention because it stands in contrast with the relative absence of this feature in the contemporary speculations of the Continent. The most potent, most formative habit of thought concerned in the early development of economic teaching on British ground is best seen in the broader generalizations of Adam Smith, and this more potent factor in Smith is a bent that is substantially identical with that which gives consistency to the speculations of the Physiocrats. In Adam Smith the two are happily combined, not to say blended; but the animistic habit still holds the primacy, with the matter-of-fact as a subsidiary though powerful factor. He is said to have combined deduction with induction. The relatively great prominence given the latter marks the line of divergence of British from French economics, not the line of coincidence; and on this account it may not be out of place to look more narrowly into the circumstances to which the emergence of this relatively greater penchant for a matter-of-fact explanation of things in the British community is due.

To explain the characteristic animus for which Hume stands on grounds that might appeal to Hume, we should have to inquire into the peculiar circumstances — ultimately material circumstances — that have gone to shape the habitual view of things within the British community, and that so have acted to differentiate the British preconceptions from the French, or from the general range of preconceptions prevalent on the Continent. These pecul-

lar formative circumstances are no doubt to some extent racial peculiarities; but the racial complexion of the British community is not widely different from the French, and especially not widely different from certain other Continental communities which are for the present purpose roughly classed with the French. Race difference can therefore not wholly, nor indeed for the greater part, account for the cultural difference of which this difference in preconceptions is an outcome. Through its cumulative effect on institutions the race difference must be held to have had a considerable effect on the habit of mind of the community; but, if the race difference is in this way taken as the remoter ground of an institutional peculiarity, which in its turn has shaped prevalent habits of thought, then the attention may be directed to the proximate causes, the concrete circumstances, through which this race difference has acted, in conjunction with other ulterior circumstances, to work out the psychological phenomena observed. Race differences, it may be remarked, do not so nearly coincide with national lines of demarcation as differences in the point of view from which things are habitually apprehended or differences in the standards according to which facts are rated.

If the element of race difference be not allowed definitive weight in discussing national peculiarities that underlie the deliverances of common sense, neither can these national peculiarities be confidently traced to a national difference in the transmitted learning that enters into the common-sense view of things. So far as concerns the concrete facts embodied in the learning of the various nations within the European culture, these nations make up but a single community. What divergence is visible does not touch the character of the positive information with which the learning of the various nations is occupied. Divergence is visible in the higher syntheses, the methods of handling the material of knowledge, the basis of valua-

tion of the facts taken up, rather than in the material of knowledge. But this divergence must be set down to a cultural difference, a difference of point of view, not to a difference in inherited information. When a given body of information passes the national frontiers it acquires a new complexion, a new national, cultural physiognomy. It is this cultural physiognomy of learning that is here under inquiry, and a comparison of early French economics (the Physiocrats) with early British economics (Adam Smith) is here entered upon merely with a view to making out what significance this cultural physiognomy of the science has for the past progress of economic speculation.

The broad features of economic speculation, as it stood at the period under consideration, may be briefly summed up, disregarding the element of policy, or expediency, which is common to both groups of economists, and attending to their theoretical work alone. With the Physiocrats, as with Adam Smith, there are two main points of view from which economic phenomena are treated: (*a*) the matter-of-fact point of view or preconception, which yields a discussion of causal sequences and correlations; and (*b*) what, for want of a more expressive word, is here called the animistic point of view or preconception, which yields a discussion of teleological sequences and correlations,—a discussion of the function of this and that "organ," of the legitimacy of this or the other range of facts. The former preconception is allowed a larger scope in the British than in the French economics: there is more of "induction" in the British. The latter preconception is present in both, and is the definitive element in both; but the animistic element is more colorless in the British, it is less constantly in evidence, and less able to stand alone without the support of arguments from cause to effect. Still, the animistic element is the controlling factor in the higher syntheses of both; and for both alike it affords the defini-

tive ground on which the argument finally comes to rest. In neither group of thinkers is the sense of substantiality appeased until this quasi-spiritual ground, given by the natural propensity of the course of events, is reached. But the propensity in events, the natural or normal course of things, as appealed to by the British speculators, suggests less of an imputation of will-power, or personal force, to the propensity in question. It may be added, as has already been said in another place, that the tacit imputation of will-power or spiritual consistency to the natural or normal course of events has progressively weakened in the later course of economic speculation, so that in this respect, the British economists of the eighteenth century may be said to represent a later phase of economic inquiry than the Physiocrats.

Unfortunately, but unavoidably, if this question as to the cultural shifting of the point of view in economic science is taken up from the side of the causes to which the shifting is traceable, it will take the discussion back to ground on which an economist must at best feel himself to be but a raw layman, with all a layman's limitations and ineptitude, and with the certainty of doing badly what might be done well by more competent hands. But, with a reliance on charity where charity is most needed, it is necessary to recite summarily what seems to be the psychological bearing of certain cultural facts.

A cursory acquaintance with any of the more archaic phases of human culture enforces the recognition of this fact,—that the habit of construing the phenomena of the inanimate world in animistic terms prevails pretty much universally on these lower levels. Inanimate phenomena are apprehended to work out a propensity to an end: the movements of the elements are construed in terms of quasi-personal force. So much is well authenticated by the observations on which anthropologists and ethnologists draw

for their materials. This animistic habit, it may be said, seems to be more effectual and far-reaching among those primitive communities that lead a predatory life.

But along with this feature of archaic methods of thought or of knowledge, the picturesqueness of which has drawn the attention of all observers, there goes a second feature, no less important for the purpose in hand, though less obtrusive. The latter is of less interest to the men who have to do with the theory of cultural development, because it is a matter of course. This second feature of archaic thought is the habit of also apprehending facts in non-animistic, or impersonal, terms. The imputation of propensity in no case extends to all the mechanical facts in the case. There is always a substratum of matter of fact, which is the outcome of an habitual imputation of causal sequence, or, perhaps better, an imputation of mechanical continuity, if a new term be permitted. The agent, thing, fact, event, or phenomenon, to which propensity, will-power, or purpose, is imputed, is always apprehended to act in an environment which is accepted as spiritually inert. There are always opaque facts as well as self-directing agents. Any agent acts through means which lend themselves to his use on other grounds than that of spiritual compulsion, although spiritual compulsion may be a large feature in any given case.

The same features of human thinking, the same two complementary methods of correlating facts and handling them for the purposes of knowledge, are similarly in constant evidence in the daily life of men in our own community. The question is, in great part, which of the two bears the greater part in shaping human knowledge at any given time and within any given range of knowledge or of facts.

Other features of the growth of knowledge, which are remoter from the point under inquiry, may be of no less

consequence to a comprehensive theory of the development of culture and of thought; but it is of course out of the question here to go farther afield. The present inquiry will have enough to do with these two. No other features are correlative with these, and these merit discussion on account of their intimate bearing on the point of view of economics. The point of interest with respect to these two correlative and complementary habits of thought is the question of how they have fared under the changing exigencies of human culture; in what manner they come, under given cultural circumstances, to share the field of knowledge between them; what is the relative part of each in the composite point of view in which the two habits of thought express themselves at any given cultural stage.

The animistic preconception enforces the apprehension of phenomena in terms generically identical with the terms of personality or individuality. As a certain modern group of psychologists would say, it imputes to objects and sequences an element of habit and attention similar in kind, though not necessarily in degree, to the like spiritual attitude present in the activities of a personal agent. The matter-of-fact preconception, on the other hand, enforces a handling of facts without imputation of personal force or attention, but with an imputation of mechanical continuity, substantially the preconception which has reached a formulation at the hands of scientists under the name of conservation of energy or persistence of quantity. Some appreciable resort to the latter method of knowledge is unavoidable at any cultural stage, for it is indispensable to all industrial efficiency. All technological processes and all mechanical contrivances rest, psychologically speaking, on this ground. This habit of thought is a selectively necessary consequence of industrial life, and, indeed, of all human experience in making use of the material means of life. It should therefore follow that, in

a general way, the higher the culture, the greater the share of the mechanical preconception in shaping human thought and knowledge, since, in a general way, the stage of culture attained depends on the efficiency of industry. The rule, while it does not hold with anything like extreme generality, must be admitted to hold to a good extent; and to that extent it should hold also that, by a selective adaptation of men's habits of thought to the exigencies of those cultural phases that have actually supervened, the mechanical method of knowledge should have gained in scope and range. Something of the sort is borne out by observation.

A further consideration enforces the like view. As the community increases in size, the range of observation of the individuals in the community also increases; and continually wider and more far-reaching sequences of a mechanical kind have to be taken account of. Men have to adapt their own motives to industrial processes that are not safely to be construed in terms of propensity, predilection, or passion. Life in an advanced industrial community does not tolerate a neglect of mechanical fact; for the mechanical sequences through which men, at an appreciable degree of culture, work out their livelihood, are no respecters of persons or of will-power. Still, on all but the higher industrial stages, the coercive discipline of industrial life, and of the scheme of life that inculcates regard for the mechanical facts of industry, is greatly mitigated by the largely haphazard character of industry, and by the great extent to which man continues to be the prime mover in industry. So long as industrial efficiency is chiefly a matter of the handicraftsman's skill, dexterity, and diligence, the attention of men in looking to the industrial process is met by the figure of the workman, as the chief and characteristic factor; and thereby it comes to run on the personal element in industry.

But, with or without mitigation, the scheme of life

which men perforce adopt under the exigencies of an advanced industrial situation shapes their habits of thought on the side of their behavior, and thereby shapes their habits of thought to some extent for all purposes. Each individual is but a single complex of habits of thought, and the same psychical mechanism that expresses itself in one direction as conduct expresses itself in another direction as knowledge. The habits of thought formed in the one connection, in response to stimuli that call for a response in terms of conduct, must, therefore, have their effect when the same individual comes to respond to stimuli that call for a response in terms of knowledge. The scheme of thought or of knowledge is in good part a reverberation of the scheme of life. So that, after all has been said, it remains true that with the growth of industrial organization and efficiency there must, by selection and by adaptation, supervene a greater resort to the mechanical or dispassionate method of apprehending facts.

But the industrial side of life is not the whole of it, nor does the scheme of life in vogue in any community or at any cultural stage comprise industrial conduct alone. The social, civic, military, and religious interests come in for their share of attention, and between them they commonly take up by far the larger share of it. Especially is this true so far as concerns those classes among whom we commonly look for a cultivation of knowledge for knowledge's sake. The discipline which these several interests exert does not commonly coincide with the training given by industry. So the religious interest, with its canons of truth and of right living, runs exclusively on personal relations and the adaptation of conduct to the predilections of a superior personal agent. The weight of its discipline, therefore, falls wholly on the animistic side. It acts to heighten our appreciation of the spiritual bearing of phenomena and to discountenance a matter-of-fact

apprehension of things. The sceptic of the type of Hume has never been in good repute with those who stand closest to the accepted religious truths. The bearing of this side of our culture upon the development of economics is shown by what the mediæval scholars had to say on economic topics.

The disciplinary effects of other phases of life, outside of the industrial and the religious, is not so simple a matter; but the discussion here approaches nearer to the point of immediate inquiry,—namely, the cultural situation in the eighteenth century, and its relation to economic speculation,—and this ground of interest in the question may help to relieve the topic of the tedium that of right belongs to it.

In the remoter past of which we have records, and even in the more recent past, Occidental man, as well as man elsewhere, has eminently been a respecter of persons. Wherever the warlike activity has been a large feature of the community's life, much of human conduct in society has proceeded on a regard for personal force. The scheme of life has been a scheme of personal aggression and subservience, partly in the naïve form, partly conventionalized in a system of status. The discipline of social life for the present purpose, in so far as its canons of conduct rest on this element of personal force in the unconventionalized form, plainly tends to the formation of a habit of apprehending and co-ordinating facts from the animistic point of view. So far as we have to do with life under a system of status, the like remains true, but with a difference. The régime of status inculcates an unremitting and very nice discrimination and observance of distinctions of personal superiority and inferiority. To the criterion of personal force, or will-power, taken in its immediate bearing on conduct, is added the criterion of personal excellence-in-general, regardless of the first-hand potency of the given person as an agent. This criterion of conduct re-

quires a constant and painstaking imputation of personal value, regardless of fact. The discrimination enjoined by the canons of status proceeds on an invidious comparison of persons in respect of worth, value, potency, virtue, which must, for the present purpose, be taken as putative. The greater or less personal value assigned a given individual or a given class under the canons of status is not assigned on the ground of visible efficiency, but on the ground of a dogmatic allegation accepted on the strength of an uncontradicted categorical affirmation simply. The canons of status hold their ground by force of pre-emption. Where distinctions of status are based on a putative worth transmitted by descent from honorable antecedents, the sequence of transmission to which appeal is taken as the arbiter of honor is of a putative and animistic character rather than a visible mechanical continuity. The habit of accepting as final what is prescriptively right in the affairs of life has as its reflex in the affairs of knowledge the formula, *Quid ab omnibus, quid ubique creditur credendum est*.

Even this meagre account of the scheme of life that characterizes a régime of status should serve to indicate what is its disciplinary effect in shaping habits of thought, and therefore in shaping the habitual criteria of knowledge and of reality. A culture whose institutions are a framework of invidious comparisons implies, or rather involves and comprises, a scheme of knowledge whose definitive standards of truth and substantiality are of an animistic character; and, the more undividedly the canons of status and ceremonial honor govern the conduct of the community, the greater the facility with which the sequence of cause and effect is made to yield before the higher claims of a spiritual sequence or guidance in the course of events. Men consistently trained to an unremitting discrimination of honor, worth, and personal force in their daily conduct, and to whom these criteria

afford the definitive ground of sufficiency in co-ordinating facts for the purposes of life, will not be satisfied to fall short of the like definitive ground of sufficiency when they come to co-ordinate facts for the purposes of knowledge simply. The habits formed in unfolding his activity in one direction, under the impulse of a given interest, assert themselves when the individual comes to unfold his activity in any other direction, under the impulse of any other interest. If his last resort and highest criterion of truth in conduct is afforded by the element of personal force and invidious comparison, his sense of substantiality or truth in the quest of knowledge will be satisfied only when a like definitive ground of animistic force and invidious comparison is reached. But when such ground is reached he rests content and pushes the inquiry no farther. In his practical life he has acquired the habit of resting his case on an authentic deliverance as to what is absolutely right. This absolutely right and good final term in conduct has the character of finality only when conduct is construed in a ceremonial sense; that is to say, only when life is conceived as a scheme of conformity to a purpose outside and beyond the process of living. Under the régime of status this ceremonial finality is found in the concept of worth or honor. In the religious domain it is the concept of virtue, sanctity, or tabu. Merit lies in what one is, not in what one does. The habit of appeal to ceremonial finality, formed in the school of status, goes with the individual in his quest of knowledge, as a dependence upon a similarly authentic norm of absolute truth,—a similar seeking of a final term outside and beyond the range of knowledge.

The discipline of social and civic life under a régime of status, then, re-enforces the discipline of the religious life; and the outcome of the resulting habituation is that the canons of knowledge are cast in the animistic mould and converge to a ground of absolute truth, and this absolute

truth is of a ceremonial nature. Its subject-matter is a reality regardless of fact.

The outcome, for science, of the religious and social life of the civilization of status, in Occidental culture, was a structure of quasi-spiritual appreciations and explanations, of which astrology, alchemy, and mediæval theology and metaphysics are competent, though somewhat one-sided, exponents. Throughout the range of this early learning the ground of correlation of phenomena is in part the supposed relative potency of the facts correlated; but it is also in part a scheme of status, in which facts are scheduled according to a hierarchical gradation of worth or merit, having only a ceremonial relation to the observed phenomena. Some elements (some metals, for instance) are noble, others base; some planets, on grounds of ceremonial efficacy, have a sinister influence, others a beneficent one; and it is a matter of serious consequence whether they are in the ascendant, and so on.

The body of learning through which the discipline of animism and invidious comparison transmitted its effects to the science of economics was what is known as natural theology, natural rights, moral philosophy, and natural law. These several disciplines or bodies of knowledge had wandered far from the naïve animistic standpoint at the time when economic science emerged, and much the same is true as regards the time of the emergence of other modern sciences. But the discipline which makes for an animistic formulation of knowledge continued to hold the primacy in modern culture, although its dominion was never altogether undivided or unmitigated. Occidental culture has long been largely an industrial culture; and, as already pointed out, the discipline of industry, and of life in an industrial community, does not favor the animistic preconception. This is especially true as regards industry which makes large use of mechanical contrivances. The difference in these respects between Occidental industry and

science, on the one hand, and the industry and science of other cultural regions, on the other hand, is worth noting in this connection. The result has been that the sciences, as that word is understood in later usage, have come forward gradually, and in a certain rough parallelism with the development of industrial processes and industrial organization. It is possible to hold that both modern industry (of the mechanical sort) and modern science centre about the region of the North Sea. It is still more palpably true that within this general area the sciences, in the recent past, show a family likeness to the civil and social institutions of the communities in which they have been cultivated, this being true to the greatest extent of the higher or speculative sciences; that is, in that range of knowledge in which the animistic preconception can chiefly and most effectively find application. There is, for instance, in the eighteenth century a perceptible parallelism between the divergent character of British and Continental culture and institutions, on the one hand, and the dissimilar aims of British and Continental speculation, on the other hand.

Something has already been said of the difference in preconceptions between the French and the British economists of the eighteenth century. It remains to point out the correlative cultural difference between the two communities, to which it is conceived that the difference in scientific animus is in great measure due. It is, of course, only the general features, the general attitude of the speculators, that can be credited to the difference in culture. Differences of detail in the specific doctrines held could be explained only on a much more detailed analysis than can be entered on here, and after taking account of facts which cannot here be even allowed for in detail.

Aside from the greater resort to mechanical contrivances and the larger scale of organization in British industry, the further cultural peculiarities of the British community

run in the same general direction. British religious life and beliefs had less of the element of fealty — personal or discretionary mastery and subservience — and more of a tone of fatalism. The civil institutions of the British had not the same rich personal content as those of the French. The British subject owned allegiance to an impersonal law rather than to the person of a superior. Relatively, it may be said that the sense of status, as a coercive factor, was in abeyance in the British community. Even in the warlike enterprise of the British community a similar characteristic is traceable. Warfare is, of course, a matter of personal assertion. Warlike communities and classes are necessarily given to construing facts in terms of personal force and personal ends. They are always superstitious. They are great sticklers for rank and precedent, and zealously cultivate those distinctions and ceremonial observances in which a system of status expresses itself. But, while warlike enterprise has by no means been absent from the British scheme of life, the geographical and strategic isolation of the British community has given a characteristic turn to their military relations. In recent times British warlike operations have been conducted abroad. The military class has consequently in great measure been segregated out from the body of the community, and the ideals and prejudices of the class have not been transfused through the general body with the same facility and effect that they might otherwise have had. The British community at home has seen the campaign in great part from the standpoint of the "sinews of war."

The outcome of all these national peculiarities of circumstance and culture has been that a different scheme of life has been current in the British community from what has prevailed on the Continent. There has resulted the formation of a different body of habits of thought and a different animus in their handling of facts. The preconception of causal sequence has been allowed larger scope

in the correlation of facts for purposes of knowledge; and, where the animistic preconception has been resorted to, as it always has in the profounder reaches of learning, it has commonly been an animism of a tamer kind.

Taking Adam Smith as an exponent of this British attitude in theoretical knowledge, it is to be noted that, while he formulates his knowledge in terms of a propensity (natural laws) working teleologically to an end, the end or objective point which controls the formulation has not the same rich content of vital human interest or advantage as is met with in the Physiocratic speculations. There is perceptibly less of an imperious tone in Adam Smith's natural laws than in those of the contemporary French economists. It is true, he sums up the institutions with which he deals in terms of the ends which they should subserve, rather than in terms of the exigencies and habits of life out of which they have arisen; but he does not with the same tone of finality appeal to the end subserved as a final cause through whose coercive guidance the complex of phenomena is kept to its appointed task. Under his hands the restraining, compelling agency retires farther into the background, and appeal is taken to it neither so directly nor on so slight provocation.

But Adam Smith is too large a figure to be disposed of in a couple of concluding paragraphs. At the same time his work and the bent which he gave to economic speculation are so intimately bound up with the aims and bias that characterize economics in its next stage of development that he is best dealt with as the point of departure for the Classical School rather than merely as a British counterpart of Physiocracy. Adam Smith will accordingly be considered in immediate connection with the bias of the classical school and the incursion of utilitarianism into economics.

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A COLLECTIVIST PHILOSOPHY OF TRADE UNIONISM.

By general consent, England is conceded to be the country which, at present, has most to teach the world in regard to the new democratic developments in industrial self-control. Here the growth of labor organizations has been most serious, consecutive, and persistent. Here the workmen's associated demand for participation and recognition in the conduct of industrial business has received most cordial and discriminating support from public opinion and legislative enactment. Here the voluntary associations of workers have shown more genuine capacity for business-like conduct of their own affairs and for intelligent recognition of those social duties and obligations which are the forgotten complement of the rights and privileges of voluntary organization. Doubtless it is this circumstance which has made English workmen and their industrial condition the subject of such innumerable investigations and dissertations by distinguished and undistinguished authors, native and foreign, representing every degree of intelligence and capacity and every phase of prejudice and opinion. Of the making of books on the subject of English Trade Unions and the allied problems of modern industry there is indeed no end. And at a time when the deeper current of thought is more than ever hidden by the froth and foam of speculation and agitation, when the true trend of events is concealed rather than revealed by the vast detritus of aimless investigation and compilation, public and private, official and non-official, a clear and comprehensive retrospective and constructive analysis is supremely welcome. Such an historical and critical survey of English Trade Unionism and allied phases of industrial organization the student now

has before him in a clearly related series of formidable volumes from Sidney and Beatrice Webb. The first volume, devoted to the narrative *History of Trade Unionism in England*, appeared in 1894, and is already familiar. Two volumes on *Industrial Democracy*, devoted to a critical and constructive examination of trade union structure, function, and theory, bear the date 1898. A residual volume of fragmentary essays, entitled the *Problems of Modern Industry*, not included in the series proper, affords a concise statement of some of the propagandist prepossessions which affect the authors' general point of view. Taken together, the three main volumes constitute an ambitious sociological treatise on the history and philosophy of the English trade union movement.

Happily, this most recent contribution to the well-worn theme has other claims upon the student's attention than that of novelty and size. It is the fruit of exceptional capacity, excellent opportunity, great industry, enlightened sympathy, and propagandist zeal, joined to undoubted reverence for scientific method and a high degree of scholarly attainment. No one who has followed these voluminous studies has for a moment doubted the originality or the significance of the work. In point of mere quantity it is no mean achievement, though in this respect the treatises merit the equivocal approbation conveyed in the phrase, "a mine of information," especially in view of the rich mass of historical "pay dirt" from which the ore is slowly and patiently washed before the reader's very eyes. And, interesting as this process of semi-controversial placer-mining is, even the appreciative reader often wishes he could have the scattered grains of truth assayed and melted down and stored in smaller volume, or coined in some convenient form for current use.

The general plan of the work is easy to outline, but difficult to keep in view through all the wealth of subdivision and detail. According to the biological formula

of the authors, the earlier volume on the *History of Trade Unionism* is to be regarded simply as the natural history of the subject,—a picture of “the outward form and habit of the creature” manifest in its political and industrial characteristics, past and present; while *Industrial Democracy* is a three-part analysis of internal characteristics, following the grand divisions of Trade Union Structure, Trade Union Function, and Trade Union Theory.

The conception of vital and organic unity implied in this biological classification of the phenomena discussed is no mere accident of phrase. On the contrary, it is only one aspect of a fundamental scientific faith in the essential unity and the mutual relevance of political, industrial, and social phenomena. For it is the distinctive feature of the threefold analysis in *Industrial Democracy* that it aims to furnish not only what we have styled a philosophy of Trade Unionism, but incidentally a philosophy of social and industrial organization as well. This is the dominant characteristic of the treatise. It is this which differentiates it from conventional studies, and gives it peculiar interest as an application of broad sociological methods to the examination of seemingly isolated phenomena. Earlier writers have been content to describe Trade Unionism simply as a phase of industrial organization. Here it is treated as a permanent and integral phase of social evolution, rich in lessons for the student of political institutions, of economic theory, and of social ideals.

The fundamental theses of the new sociological philosophy of Trade Unionism, which clearly reveal this scientific faith, are essentially threefold, and may be roughly summarized in three groups, corresponding to the three main divisions of the treatise,—Structure, Function, and Theory. First, it is urged that Trade Unionism is a typical and spontaneous manifestation of the methods and results of pure democracy,—a crucial experiment in

self-government; a microcosm reproducing the experience of political democracy in the past and prophetic of the phases through which political democracies will pass in time to come. Second, that the essence of Trade Unionism is a concerted effort to substitute the true compulsory freedom of "collective bargaining" for the illusory liberty of individual contract and competitive inequality, which "invariably tends, for the mass of workers, towards the worst possible conditions of labor—ultimately, indeed, to the barest subsistence level"; that it is a united effort to lift from the isolated workman the crushing and degrading weight of that long "chain of bargainings" inevitably forged by "the anarchic irresponsibility of the private customer" and the competitive "system of natural liberty"; that it is a legitimate insistence on the right of the wage-earner to a progressive participation in the fruits of industrial civilization, and an indispensable protection to his standard of life. Third, that Trade Unionism is a permanent, and not a transitory, feature of democratic society, destined to endure under any possible form of industrial organization consistent with a democratic state; that it rests not merely upon a sound basis of economic theory, but is inherent in human nature; that it is, therefore, not an artificial contrivance, but a natural and instinctive manifestation of industrial psychology, and in its contemporary aspects simply a conscious evolution of what was first unconsciously involved.

The bare statement of these views is sufficient answer to the preliminary objection that the ambitious title Industrial Democracy has no more applicability to an analysis of trade union practices, principles, and implications than it would have to a similar study of the co-operative movement or of Friendly Societies. Doubtless the splendid achievements of the English co-operators admirably exemplify democratic self-control in industrial affairs, and it is no less certain that the elaborate self-help organiza-

tion of English Friendly Societies clearly illustrates the general principles of democratic administration. But he would be a bold champion who should claim for these movements that enduring combination of political, industrial, and psychological significance ascribed to Trade Unionism; not to mention the added defect that they are probably less typical than Trade Unions are of that alleged democracy of the future, which is here regarded as democracy *par excellence*, the democracy of the hired man.

Moreover, with these general theses (and hypotheses) in mind, the arrangement and sequence of the treatise more readily explains itself. The analysis of Trade Union Structure, in Part I., indicates with comparative brevity the kind of electoral machinery which trade unions have gradually developed in their efforts to cope with the universal democratic problem of combining administrative efficiency and popular control,—the successive phases through which these typical industrial democracies have passed, and the lessons which their isolated experiments bequeath to political democracy and society at large. The discussion of Trade Union Function, in Part II., is an exhaustive, four-hundred-and-fifty-page account of what Trade Unionism really is in practice, of the ends it has in view and the means adopted to attain these ends, of the assumptions upon which it proceeds and the general principles involved in its rules and regulations. Finally, the discussion of Trade Union Theory, in Part III., is a critical examination of the theoretical wisdom and practical expediency of all these phases of trade union policy,—vindicating Trade Unionism against the criticisms of “obsessed” orthodox economists, planting it on the firm foundation of sound theory, practical experience, and human nature, and concluding with an apocalyptic vision of the democratic future, when compulsory trade unionism and compulsory citizenship shall be co-extensive with the Collectivist State.

Turn now to the lessons which this searching investigation of Trade Union Structure reveals to the student of democracy. Those who are simply concerned with the practical value and efficiency of trade unions are warned that this part of the book has little interest for them. On the other hand, the student of democracy is assured that the literature of cash accounts, monthly and yearly reports, pamphlets, and trade documents, "poured out to the extent of hundreds of volumes annually—is of fascinating interest," because "it lays bare, more completely than any records known to us, the real nature and action of democratic organization in the Anglo-Saxon race." Those who view with apprehension the participation of manual working wage-earners in modern politics can here reassure themselves by a study of thousands of typical and untrammelled working class democracies, illustrating the manner in which the workingman copes with the problem of combining administrative efficiency with popular control. And, obviously, if we assume "that the manual workers, who number four-fifths of the population, will gradually become the dominant influences in the electorate, and will contribute an important and increasing section of the representatives, the governing assemblies of the Coal-miners or Cotton Operatives to-day may be to a large extent prophetic of the future legislative assembly in any English-speaking community."

Granting for the moment the validity of thus reasoning from the conduct of a voluntary trade organization to the conduct of a nation, what light has this investigation thrown on the political instincts of that small and select minority of English workingmen who have constituted the trade union movement? What prophetic forecast does the workingman's "industrial statesmanship" give of the future of a workingman's political democracy? In short, what lesson does government of the workman, by the workman, for the workman, bring to government of the people, by the people, for the people?

It would be difficult to exaggerate the faithful enthusiasm with which the answer to these questions is sought. Beginning with an ambitious comparison of the local trade clubs of the eighteenth century to the general meetings of the Swiss cantons of Uri and Appenzell, there is throughout the whole discussion a persistent and ingenious effort to use the language of political analogy, and thus lift into significance the most commonplace details of trade union methods of election, representation, and administration. The gradual evolution of administration and control is traced through the slow and painful process of experiment, failure, and survival of the fit, all the way from the rudimentary aspects of a pothouse democracy, chiefly concerned in securing equality of drinks and rotation in the office of president ("accommodated with his own choice of liquors, wine only excepted"), to the constitutional perfection of such "a fully equipped democratic state of the modern type" as the Amalgamated Association of Operative Cotton-spinners. The lessons of a whole century of painful and incessant experiment, the results of this "long and inarticulate struggle of unlettered men," are summarized in a single word. "If, therefore, democracy means that everything which 'concerns all should be decided by all,' and that each citizen should enjoy an equal and identical share in the government, Trade Union history indicates clearly the inevitable result. Government by such contrivances as Rotation of Office, the Mass Meeting, the Referendum and Initiative, or the Delegate restricted by his Imperative Mandate, leads straight either to inefficiency and disintegration or to the uncontrolled dominance of a personal dictator or an expert bureaucracy. Dimly and almost unconsciously, this conclusion has, after a whole century of experiment, forced itself upon the more advanced trades. The old theory of democracy is still an article of faith, and constantly comes to the front when any organization has to be formed for

brand-new purposes; but Trade Union constitutions have undergone a silent revolution."

But this is only the negative side of the conclusion. Trade union experience points with no less clearness to the positive necessity of replacing these naïve, crude, and obsolete methods of undeveloped democracy by a new type of representative assembly, composed of "experts" or "professional representatives," such as we already find in the recently developed and prophetic "parliaments" of cotton-spinners and coalminers. Trade union history, therefore, points to "government by a Representative Assembly as the last word of democracy." But, if the Cotton Parliament is really prophetic, we are assured that the typical English-speaking representative assembly of the progressive future will advance as much beyond the existing House of Commons and other such adventitious aggregates as such legislative bodies have advanced beyond a mere delegate meeting. For the "expert" or "professional representative" will resemble neither the irresponsible middle-class parliamentary representative of to-day nor the instructed delegate of the primitive trade union assemblies. He will be the paid expert adviser, counsellor, and persuader of his constituents, and, even when advice and counsel are rejected, the holder of his constituents' brief and the exponent of their views.

As already intimated, the nearest approximations to these ideals of representative government are found in the two great modern federal associations of coalminers and cotton operatives, comprising one-fifth of the total trade union membership and pre-eminent in point of numbers, political influence, and annual income. Both these trades have solved the fundamental problem of administrative efficiency and popular control by the combination of an expert civil service and representative institutions. The Amalgamated Association of Cotton-spinners is free from all those naïve and obsolete expedients of popular

control which older unions so tardily and reluctantly abandon, such as the general or aggregate meeting, the referendum and the initiative, rotation of office, the instructed delegate. On the other hand, it has an elected parliament, supreme and uncontrolled, a cabinet appointed by and responsible only to that parliament, a chief executive officer chosen for his efficiency and enjoying civil service permanence of tenure. The Miners' Parliament, similarly constituted, and representing about two-thirds the organized coalminers, is likewise characterized as "in many respects the most important assembly in the Trade Union world." But, after all, it must be remembered that these conclusions are, for the mass of the trade union world, merely an insinuation of advice and encouragement in the name of scientific generalization and prophecy, rather than a record of actual progress. For at bottom there is still recognized an "unconscious exasperation of the wage-earners all over the world against representative institutions," due to the tendency of the specialized representative (who becomes a brain worker) to get out of touch with his constituents. And, even in these model "parliaments" of the cotton-spinners and the coalminers, this difficulty and distrust has led to the combination of two classes of representatives, the salaried officials of the districts and the workmen still employed at the mill or in the mine.

As to the proper unit of self-government and the vexed question of the proper division of the powers between central and local authorities, it is frankly admitted that "Trade Union experience affords no guide, either to other voluntary associations or to political democracy." From the point of view of the trade union, however, the problem would seem simple enough, given the proposition that "the desire for uniform minimum conditions throughout each industry" is, "whether wisely or not, the most permanent of Trade Union aspirations." It follows obviously

that such uniformity of minimum throughout a trade can only be enforced by an organization coextensive with the trade. Both theory and practice, therefore, point to "the whole extent of each trade within the British Isles as forming the proper unit of government for any combination of the wage-earners in that trade." The same line of reasoning would lead to the conclusion that a militant organization for the enforcement of a uniform minimum would have to accept the inevitable centralization of funds and of executive administration which is the universal price paid for militant efficiency. So that some amalgamated form of national trade organization would seem to be a logical necessity. This is doubtless a sufficient explanation of the tendency of workingmen to break with their democratic traditions, and adopt a centralized and bureaucratic system of administration in their trade unions, in marked contrast to their jealous insistence upon local autonomy in the administration of the great Friendly Society and co-operative movements. In reality, however, trade unions have been more influenced by fact than by theory, and have expanded their aims and organizations to meet the constantly expanding area of effective competition, due to the constantly increasing mobility of labor throughout the length and breadth of a trade or of closely allied trades. Broad views of trade solidarity, a propagandist enthusiasm, and a missionary zeal for the *uniform minimum* are fruits of the wage-earner's somewhat peculiar economic necessity of helping competitors as a condition of helping himself. Slowly and reluctantly, in spite of selfish and often exclusive aims, in spite of race prejudices, and in spite of jealousy in regard to local and sectional autonomy, the unit of organization has been expanding from the town to the trade. Unhappily, in spite of some approximations to this ideal of a national organization of each trade, the process is far from complete. Rival organizations within the same trades, kept apart by

local, racial, or competitive jealousies, constantly weaken and distract the councils of Trade Unionism, and occasionally disgrace and discredit the movement by prolonged internecine quarrels, in which the interests of employers, employees, and industry at large are sacrificed to pitiful, puerile exhibitions of business incapacity. Indeed, we are assured that "it is no exaggeration to say that to competition between overlapping unions is to be attributed nine-tenths of the ineffectiveness of the Trade Union world." Moreover, "with the remarkable exceptions of the coal and cotton industries, and, to a lesser extent, that of house-building, there is hardly a great trade in the country in which workmen's organizations are not crippled by this fatal dissension."

Equally discreditable and disastrous are those incendiary defects of constitution which enable irresponsible and intemperate branches of powerful unions, like the Amalgamated Society of Engineers, by virtue of their excessive local autonomy, which is another name for lack of discipline and ability, practically to initiate strikes, and draw on the funds of the whole society in the name of "out of work" benefit, without the previous knowledge or consent of the central executive. Some light is thrown upon the exasperating possibilities of these trade jealousies and constitutional defects of organization by such events as the prolonged and discreditable strike in the Tyneside ship-building yards in 1892, "when thousands of men were idle for three months, not in order to raise the Standard of Life of themselves or any other section of the workers, but because the local Engineers and Plumbers could not agree as to which of them should fit up two-and-a-half-inch iron piping."

Whatever may be the difference of opinion about applying the lessons of Trade Unionism to the reorganization and perfecting of democracy at large, no one can fail to applaud the converse effort to apply the teachings

of democracy—or of business efficiency and common sense, for that matter—to the tangle of conflicting organizations and constitutional defects which at present not only embarrasses the internal administration and impairs the militant efficiency of amalgamated or federal groups, but also deprives the employers of all confidence in those who meet them in the workmen's behalf, and creates in the public mind a distrust of trade-union methods. Society has, indeed, a right to be protected against such incendiary methods on the part of those who undertake the important business of selling blocks of labor for future delivery, and of enforcing "uniform minimum conditions" of employment. The right to organize for the conduct of such important business carries with it the duty of organizing well. The right of any trade union leader or representative or "expert" to bargain with employers for the sale and future delivery of labor is measured by his ability to guarantee the faithful delivery of the goods he sells. Judged by such obvious standards, it must be confessed that trade union structure has less to teach than it has to learn.

On the other hand, those who are haunted by the old familiar spectre of a great, compact, centralized union of labor organizations on class lines, exercising an overwhelming influence in industry and politics, may find some social compensations in the difficulties and centrifugal tendencies in the way of any federation or amalgamation of the trade union world. The possibilities of such concentration have long been the conservative's nightmare and the agitator's dream. But the repeated failure of inclusive "general" unions and of heterogeneous trade amalgamations in England and elsewhere, no less than the existing obstacles to concerted action by related trades and branches of the same trade, are calculated to postpone indefinitely the realization of such conservative apprehensions and revolutionary dreams. Far from

any immediate prospect of effective and concentrated confederation, British Trade Unionism gives little promise of developing into anything more compact and formidable than "an elaborate series of federations, among which it will be difficult to decide where the sovereignty really resides." And even this tentative unity must be purchased by the exercise of tactful ingenuity and by the conciliatory treatment of the numerically weak organizations by the strong,—conditions which will not suffer themselves to be reduced to any mechanical plan of proportional representation in a grand federal assembly. In fact, the farther organization departs from the simple, normal unit of the isolated trade, the less instructive and effective do the manifestations of democratic capacity become. Witness the dissensions which to-day cripple most of the great trades, with the comparatively recent and "remarkable exceptions of the coal and cotton industries"; witness the notorious darkening of counsel with words annually in the Trade Union Congresses; witness the eclectic enthusiasm for inconsistent programmes and ideals which has characterized the novitiate of "labor politics." Indeed, it is difficult to understand how anything short of the most transcendent optimism could account for the generous assumption that these wholly exceptional "governing assemblies of the Coalminers or Cotton Operatives to-day may be to a large extent prophetic of the future legislative assembly in any English-speaking community." This reasoning from the comparatively simple and homogeneous to the essentially complex and heterogeneous, to the exclusion of more obvious, if less pleasing analogies, is in keeping with the long-range reasoning which concludes, from the narrow premises of trade union experiment, that, in the future, government of the people, by the people, for the people, will give place to government of the people by salaried "experts." without the intervention of any such crude

expedients as the referendum and the initiative, written constitutions, and the rest of the equipment of the "old" democracy. Why the legislative assembly of any English-speaking community in which manual workers constitute four-fifths of the population, and some corresponding fraction of electors and representatives, should thus resemble the isolated "parliament" of a single trade, like cotton or coal, rather than some such representative body as the derided Trade Union Congress, is by no means clear. Even granting that the exceptional "Cotton Parliament" typifies what the legislative executive of the English-speaking democracy of the future ought to be, what reason is there for supposing that this future democracy will be any more successful in doing what it ought to do than trade union democracies are now? It is one thing to reason from what has been in the past to what ought to be in the future: it is quite another thing to reason from what has been to what probably will be.

So much for the analysis of Trade Union Structure, which in good measure redeems its promise of being the most interesting and instructive portion of the book for the general student of democratic tendencies and institutions. Turn for the moment to that massive section of the treatise devoted to the bewildering details of Trade Union Function,—the account of what trade unionists try to do, how they try to do it, and upon what assumptions and general principles they proceed.

Happily, we are again able to bring to our aid one of the compensating merits of this discursive treatise,—the occasional epigrammatic retrospect. After struggling with the infinite details of prolonged and exhaustive chapters on trade union methods and regulations, the reader is relieved to find this summary: "For the improvement of the conditions of employment, whether in respect of wages, hours, health, safety, or comfort, the Trade Unionists

have, with all their multiplicity of Regulations, really only two expedients, which we term, respectively, the Device of the Common Rule, and the Device of Restriction of Numbers. The Regulations which we have described in our chapters on the Standard Rate, the Normal Day, and Sanitation and Safety, are but different forms of one principle,—the settlement, whether by Mutual Insurance, Collective Bargaining, or Legal Enactment, of minimum conditions of employment, by Common Rules applicable to whole bodies of workers. All these Regulations are based on the assumption that when, in the absence of any Common Rule, the conditions of employment are left to 'free competition,' this always means, in practice, that they are arrived at by Individual Bargaining between contracting parties of very unequal economic strength. Such a settlement, it is asserted, invariably tends, for the mass of workers, towards the worst possible conditions of labor,—ultimately, indeed, to the barest subsistence level,—whilst even the exceptional few do not permanently gain as much as they otherwise could. We find accordingly that the Device of the Common Rule is a universal feature of Trade Unionism, and that the assumption on which it is based is held from one end of the Trade Union world to the other. The Device of the Restriction of Numbers stands in a different position. In our chapter on the Entrance to a Trade we have described how the Regulations embodying this device, once adopted as a matter of course, have successively been found inapplicable to the circumstances of modern industry. The assumption on which they are based—that better conditions can be obtained by limiting the number of competitors—would not be denied by any Trade Unionist, but it cannot be said to form an important part in the working creed of the Trade Union world."

In spite of the inherent complexity of the problem and some display of technical terms, the student, or the general

reader, will have no great difficulty in constructing an intelligible chronological and intellectual panorama of the "Trade Union world," if only he succeeds at the start in ridding himself of the natural assumption that it differs essentially from the rest of the world of which it forms a part. What is true of the psychological outfit of men in general is largely true of trade unionists. If, therefore, we accept for the moment the somewhat crude and question-begging categories used in this treatise, society at large may roughly be divided into three psychological groups,—conservatives, individualists, and "collectivists." And this division holds equally well for the trade union community. These three groups, again, will each have its own peculiar temperamental philosophy of life,—political, industrial, social. The conservative will favor the *status quo*: he will bitterly resist innovations and alleged improvements in established political and industrial processes, machinery, and ideals. To the other two groups he will often seem a bigoted obstructionist, an enemy of progress. His theory of life and conduct, which is as obvious and satisfactory to him as it is incomprehensible and odious to his critics, may be called the "Doctrine of Vested Interests."

The individualist, on the other hand, is the apostle of "freedom." He believes in the orthodox economic creed of beneficent competition,—whatever pays best is best. He believes that all men have a natural and inalienable right to the *pursuit* of happiness, and to the enjoyment of as much happiness as they can overtake, without any officious interference in their conduct by the State. His vigorous and aggressive temper has no sympathy for the timid and retrospective creed of "vested interests." His hope is in the future, not the past. His creed is the optimistic, self-reliant "Doctrine of Supply and Demand."

Finally, the so-called "collectivist-minded workman," if we may accept the composite autobiographic description

given of him, represents a reaction from this exuberant faith in unregulated competition and the survival of the strong; a protest against the inevitably baneful results of freedom and *laissez-faire*, under actual conditions of competitive inequality; an appeal, on behalf of the weak in the unequal struggle for standards of life, from the harsh verdict of competitive freedom to the social equity of State regulation; a comprehensive programme of regulated and socialized competition, with adequate legislative guarantees that the minimum conditions of self-respecting citizenship shall never again be encroached upon in the illusory name of competitive liberty and free contract,—in short, the new “Doctrine of the Living Wage.”

Now the only common assumption which unites the conservative doctrine of vested interests, the individualist doctrine of supply and demand, and the collectivist doctrine of the standard of life, is that fundamental article of the trade union creed,—distrust of individual bargaining and belief in the necessity for concerted maintenance of minimum conditions of employment. On the other hand, the “regulations” used to enforce this minimum in any given section of workmen at the present day or in any given epoch of trade union history will differ radically, according to which of the three “doctrines” prevails; for it is interesting to observe that each of these divergent theories is characteristic not only of certain trades to-day, but of certain chronological epochs in the development of the trade union movement as a whole. Thus, for example, the doctrine of vested interests was characteristic of the earliest phases of Trade Unionism, when the eighteenth-century government paternalism could still be confidently appealed to for the enforcement of traditional regulations. It still found expression in passionate appeals for the enforcement of the obsolete Elizabethan laws in regard to apprenticeship and the fix-

ing of wages by magistrates, long after the new system of factory organization and the new philosophy of industrial liberty had rendered further enforcement of such regulations impossible. It was this spirit which inspired the long struggle against the introduction of new processes and machinery, lasting well into the third quarter of the present century. Then, as now, this doctrine was characterized by bitter opposition to innovation; by stringent efforts to establish trade monopolies, through the limitation of apprenticeship, the jealous exclusion of "illegal" men, the enforcement of entrance fees, and the maintenance of strict lines of demarkation between trades. It was this proprietary conception which was embodied in what was long the favorite argument of the Amalgamated Society of Engineers and of other unions,—that prolonged and costly apprenticeship gave the artisan the same title to exclusive privileges in his trade that a diploma from the College of Surgeons would give to the professional man. It was this same belated theory of vested interests, even in a nation's drinking habits, which in 1883 led the Mutual Association of Coopers—in emulation of the silversmiths of Ephesus of old—to complain that the spread of education and temperance, and the proposal of "Local Option," were dealing a dangerous blow to the business of their employers, the brewers. Hopelessly obsolete and generally impotent as the practices in question have confessedly become, the theory of proprietary interests in an occupation still asserts itself in discreditable "demarkation disputes" between unions, as to which of them is entitled to do certain work (such as the quarrel between the plumbers and steam-fitters already mentioned), and still colors the opinions and tacitly underlies the contentions of large numbers of English trade unionists.

The doctrine of the second, or individualist, group—the doctrine of supply and demand—is characteristic of that

virile phase of trade union development which began just before the middle of the present century, completely dominated the third quarter of the century, and has only in recent years encountered any serious and organized counter-movement. To the ordinary and unprepossessed student of labor organizations—as, indeed, to the public at large—this has seemed the heroic period, the most creditable and hopeful phase, of the trade union movement. It was during these years that the “new model” of amalgamated trade societies came to the front, equipped with all the now familiar and costly armor of friendly benefits, providing for sickness, accident, old age, and out of work. The sober and business-like self-help ideals of this “new unionism,” embodied in such societies as the Amalgamated Engineers, gradually leavened the whole movement, and slowly redeemed the reputation of organized labor from the reproaches brought upon it by the heterogeneous, undisciplined, tempestuous, and ephemeral associations (or “general” unions) which embodied the Owenite vagaries and revolutionary enthusiasms of the decade after the repeal of the “Combination Laws” in 1825. It was this persistent and courageous type of Trade Unionism which, at the beginning of the seventies, astonished the world by emerging almost scot-free from the running fire of criticism, accusation, and parliamentary investigation, converted an adverse public opinion into a cordial verdict of social utility, and crowned its victories, at the close of the third quarter of the century, by securing from a conservative Parliament the legislative indorsement of an act which embodied the legal aspirations of half a century,—a complete charter of liberties, by which trade unions were “liberated from the last vestige of the criminal laws specially appertaining to labor.”

To the “collectivist-minded,” or more properly, perhaps, the “Fabian-minded” historian and social philosopher, who judges events with reference not to their im-

mediate significance, but their remote bearings on collectivist ideals, the splendid achievements of this heroic period are marred by one fatal inconsistency,—the complete conversion of the leaders of Trade Unionism to the anti-social (or anti-socialistic) philosophy of competitive freedom and *laissez-faire*. So completely did these sturdy champions lapse into the sophistical platitudes of Liberalism that their whole argument for legislative emancipation was based on the proposition that complete freedom of individual contract logically involved the freedom of the individual to bargain for the sale of his labor by any method he saw fit, including the collective method. Indeed, in the *History of Trade Unionism* we are assured that the heretical doctrine “that all men may lawfully agree to work or not to work, or to employ or not to employ, on any terms they think fit,” was the whole burden of the speeches and petitions of the trade union leaders during the controversy in 1875. The workingman had, in fact, wrested from his opponents the logical weapons of “freedom” and non-interference. Such tactics were doubtless justified by the necessity of fighting the capitalist with his own fire, at a time when it was “hopeless to dream of converting the middle class to the essential principle of Trade Unionism, the compulsory maintenance of the Standard of Life”; but to become the sincere dupes of such belligerent reasoning was little short of rank apostasy and intellectual stultification. Indeed, we are assured that such professions by trade union leaders of faith in freedom of contract were perilously near cant, in view of the fact that, “when they contended that the Union should be as free to bargain as the individual, they had not the slightest intention of permitting the individual to bargain freely if they could prevent him.” And they actually were preventing it wherever the “society men” were in a sufficiently large majority to make it safe to refuse to work with non-society men, as in the case of

the Northumberland and Durham coalminers, who habitually refused even to descend the shaft in company with a non-unionist. As further evidence of this intellectual inconsistency and complete loss of bearings, we are referred to the melancholy fact that a Trade Union Congress could repeatedly press for such "reforms" as peasant proprietorship, the purchase by the artisan of his own cottage, the establishment of the "self-governing workshop," the multiplication of patents in the hands of individual workmen, "and other changes which would cut at the root of Trade Unionism or any collective control of the means of production." All this, we are assured, is a "striking instance of the danger which besets a party formed without any clear idea of the social state at which it is aiming." And, incidentally, it is also well to observe the dangers which beset a historian who has too clear an idea of the social state at which he is aiming. In any event, we are told that "in the struggle of these years we watch English Trade Unionists driven from their Utopian aspirations into an inconsistent opportunism, from which they drifted during the next generation into the crude 'self-help' of an 'aristocracy of labor.'"

But, if this stiff-necked and "aristocratic" generation of trade unionists insisted on wandering aimlessly in the wilderness of "opportunism" and "self-help," it was not from any lack of proffered leadership on the part of social prophets with exclusive and authoritative information about the shortest way to the promised land of socialistic milk and honey. If they stuck persistently to ideals of self-help and supply and demand, it was from no lack of substitute philosophies of State help. The authors of the present history and philosophy of Trade Unionism are not the first to make an elaborate attempt to wean the British workman from his practical opportunism, and supply his "fatal lack" of a consistent theory of progress and a definite idea of the social state at which he ought to be

aiming. Not to mention Robert Owen and his indigenous successors, England has, since the days of Karl Marx, abounded in foreign prophets, for the most part without honor in their own country, and without great influence in the land of their sojourn. Nevertheless, the missionary propaganda of these exiles secured a certain number of influential and vigorous converts, who did their best to rekindle the slumbering enthusiasm of the Owenite and Chartist movements of the second quarter of the century. Gradually a distinctively English school of socialistic thought arose. These indigenous tendencies, sedulously cultivated by missionary exiles from Germany and other Continental countries, suddenly received a powerful impulse in the early eighties from the apostolic crusade of Henry George for the rescue of the unearned increment from the impious hands of private monopoly. The contagious enthusiasm and graphic simplicity of this new apostolic propaganda was seconded by the concentrated monopoly and aristocratic associations of landed proprietorship in England. The coincident discontent and discouragement of prolonged industrial depression, the dramatic exploitation by agitators of the problems of the unemployed and unemployable, the "bitter cry" of outcast London, and the concentration of public attention on the scientific and philanthropic presentation of the problem of the "submerged tenth,"—all these and many other influences contributed to the nervous tension and dazed expectancy of the situation. The methods of self-help, the doctrines of supply and demand, seemed powerless to grapple with the vast problems of industrial depression, the unemployed, the "submerged tenth," and the larger fraction of partially submerged. The times were ripe for a new burst of enthusiasm for the help of those who could not organize to help themselves. The sporadic manifestations of this temper culminated in the dramatic scenes of the great Dock Strike in

1889. New leaders struggled to the front; the public relieved its mind by generous contributions of moral and money support; statesmen and churchmen hastened to intervene with their good offices; the theory of supply and demand was confronted with the stubborn fact that a great and unorganized mass of superabundant labor had at least temporarily secured the recognition of its rights, not as a human commodity subject to the inexorable laws of demand and supply, but as industrious fellow-citizens demanding for their labor at least the minimum essential to self-respect and social conduct.

Although the numerical revival of Trade Unionism which followed was not confined to recruits from the humbler or less skilled ranks of labor, it suggested in some respects a recrudescence of the more inclusive general movements of the Owenite days of 1834. This new kind of "New Unionism" was characterized by the advent of other leaders, with more inclusive aims, less "aristocratic" trade notions, and more general enthusiasm for State help.

So complete was the momentary discomfiture of the conservative elements of the "Old" Unionism of self-help that the triumph which the Parliamentary Committee of the Trade Union Congress had secured over the socialists of the Dundee Congress in 1889 was completely reversed in the Liverpool Congress of 1890. Mr. John Burns was able to boast that, out of the sixty resolutions passed by the Liverpool Congress, "forty-five were nothing more or less than direct appeals to the State and Municipalities of this country to do for the workman what Trade Unionism, 'Old' and 'New,' has proved itself incapable of doing. Forty-five out of the sixty resolutions were asking for State or Municipal interference on behalf of the weak against the strong." This exuberance, however, was of short duration. The leaders of the "New" Unionism promptly acquired more temperate ideas in the new

school of responsible leadership, and soon found themselves obliged to break with the radical Social Democrats. The ephemeral character of some of the organizations of unskilled workmen soon became obvious, the staying qualities of the "Old" Friendly benefit type of union reasserted themselves, and the enthusiasm for the "New" light-armed and less expensive type visibly declined.

Nevertheless, a broader sympathy and sense of class solidarity permeated the older organizations, liberalizing their constitutions and their temper, and predisposing them to listen to those who were beginning to formulate a new doctrine,—that the welfare of the whole community demands that no section of workers, however weak strategically, shall be reduced to conditions "inconsistent with industrial or civic efficiency." For fifteen years, we are told, "this idea of a 'Living Wage' simmered in the minds of Trade Unionists. The labor upheaval of 1889 marked its definite adoption as a fundamental assumption of Trade Unionism, in conscious opposition both to the Doctrine of Vested Interests and to that of Supply and Demand." On the other hand, this emphasis of chronological sequence must not be permitted to conceal the fact that these rival assumptions still exist side by side in the trade union world. Like their conservative, individualistic, and collectivist analogues in the political world, they must long continue to coexist, embodying themselves in old-fashioned restrictive regulations, or in sliding scales, aggressive bargainings and "alliances" with employers, or in further extension of legislative protection for the weak.

As to the actual future, the predictions of our authors are extremely tentative. "Any further application of Collectivism, whether in the Trade Union or the political world, depends, it is clear, on an increase in our scientific knowledge, no less than on the growth of new habits of social co-operation. Progress in this direction must,

therefore, be gradual, and will probably be slow. And the philosophical Collectivist will, we think, foresee that, whether in the regulation of labor, the incidence of taxation, or the administration of public services, any stable adjustment of social resources to social needs must always take into account, not only the scientifically ascertained conditions of efficiency, but also the 'established expectation' and the 'fighting force' of all the classes concerned."

As to the ideal future, they are correspondingly precise and dogmatic. They demand an unqualified extension of the policy of a compulsory trade minimum to a compulsory national minimum. Precisely the same economic arguments are applied to the nation as to the trade,—to the relations of trades within a national system of industry as to the relation of individuals within a trade. The argument is simply the fundamental trade union theorem that free or unregulated competition always means progressive degeneration of the strong and the survival of the unfit. Regulated competition is the indispensable condition of the survival of the fit. Omitting inequalities due to relative skill and efficiency, the only security for the strong is the protection of the weak against the consequences of his weakness. In other words, those sections of the workmen in a given trade who are compelled by their strategic weakness to accept inferior, "unfair," or "sweated" conditions of employment, whether in the form of wages, sanitary conditions, hours of labor, or intensity of exertion, are just to that extent involuntarily subsidizing their employer, just to that extent enabling him to undersell and drive out his "fair" and socially fit or strategically weaker competitor, and just to that extent compelling the strategically strong workmen to accept a corresponding diminution. Therefore, a "common rule" or compulsory minimum, enforced by collective bargaining or, still better, by "legal enactment" in the form of factory legislation and government

inspection, is the only guarantee that the socially fit employer and employee will survive and continue to reap the legitimate benefit of special efficiency or skill.

In precisely the same manner, it is argued that competition between strong and weak trades, or regulated and unregulated trades, tends to the progressive decay of the strong and the corresponding expansion of the weak, sweated, or parasitic trades. For it is urged that, in view of international trade, the trades which seem farthest removed from competition with unskilled, or sweated, parasitic trades, may none the less be the victims of such insidious competition. The increased export of a commodity which owes its cheapness to the involuntary subsidy contributed by unfair or sweated conditions of production may well be at the expense of progressively decreased production and export of commodities which owe their relative dearness to compulsory maintenance of higher standards, whether by collective bargaining or special legal enactment. So that international demand, following the lines of cheapness, would throw production more and more into unregulated, sweated, and parasitic trades, causing a corresponding decline in the high standard trades and a progressive transfer and degradation of their displaced workmen to the ranks of the expanding parasitic industries. Hence the impressive paradox of economic progress,—that the only security for the strong is the protection of the weak, whether it be the strong section of a single trade or a strong trade in a national industry.

“The outcome of this analysis is that the strongest competitors for the world's custom, and for the use of a nation's brains and capital, will be the regulated industries on the one hand, the parasitic trades on the other—the unregulated but self-supporting industries having to put up with the leavings of both home and foreign trade, and a diminishing quantity and quality of organizing capacity

and manual labor." The regulated competition of the compulsory common rule therefore applies the test of efficiency, and is the only guarantee that the efficient employer, employee, and type of industrial organization will survive. Trade Unionism, however, is helpless to apply this remedy to the degrading conditions of parasitic competition. The cause of sweating is the strategic weakness of the superabundant reserve army of general and unspecialized laborers,—men, women, girls, and boys. The very proposal to organize these helpless groups and cope with the evils by the self-help device of the common rule, enforced by methods of mutual insurance and collective bargaining, is a contradiction in terms. Add now to these economic considerations the measureless injury to national character wrought by the infectious spread of degraded standards of health, morality, and public spirit,—from family to street, street to slum, and slum to city,—and the conclusion seems inevitable. "The remedy is to extend the conception of the Common Rule from the trade to the whole community, and, by prescribing a National Minimum, absolutely to prevent any industry being carried on under conditions detrimental to public welfare."

In this way alone can a nation avoid the disastrous results of indirectly subsidizing those sweated, parasitic trades which take more out of their employees than the wages and other conditions of employment will repair, and constantly call upon public and private charity to make up the deficiency and struggle with the consequent demoralization. In theory, therefore, the enforcement of a national minimum is simply an extension of the common rule to industry as a whole. In practice, it merely involves a further extension of the familiar method of legal enactment or factory legislation. Factory legislation already attempts to guarantee a certain minimum of education, sanitation, and leisure to children, women, and

adults in certain occupations. The national minimum would simply extend the guarantee to wages, and the application to all employees. The minimum adopted would be the wages actually paid by the better establishments, who would thus be helped by having their competitors raised to their level. The gradual raising of such a national minimum would alleviate the inevitable distress of industrial redistribution in favor of the fittest trades. The problem of the unemployed would be alleviated by the elimination of degrading influences. The problem of the unemployable would of course remain,—as it must under any conditions,—to be scientifically dealt with; but the chances of successful treatment would be greatly enhanced by thus clearly isolating the phenomena. The chief remonstrance against the new régime would come from the profit-makers in the formerly subsidized parasitic trades.

But what has economic science to say to this remarkable series of propositions? What is to become of the theories of wages, the Malthusian "principle of population," and the time-honored formulas which discredited all the "artificial" aims, methods, and regulations of Trade Unionism, to the complete satisfaction of "the ordinary middle-class man," down to the last quarter of the century?

Now it must be admitted that the "collectivist-minded" historian, philosopher, and reformer seems to care very little what becomes of the logical subtleties purporting to embody the "natural" laws of remuneration, of population, and accumulation. It is obviously no part of the collectivist plan of propaganda to cultivate a respect for "any manipulation of economic abstractions, with or without the aid of mathematics." On the contrary, the archaic doctrines which the "middle class" has learned from old books and the lips of the last generation are constantly held up to ridicule, in the light both of expe-

rience and of contemporary economic teaching. The wages fund is described as "a historical curiosity," with its logical machinery for automatic refutation of any possible scheme of progress, by showing the effect of a rise of wages to be fall of profits, or migration or diminished accumulation of capital, with the biological nemesis of increased population as a last resort. These are all vain imaginings. There is no predetermined wages fund. The incentive to accumulation of capital does not diminish with the rise in wages and fall of profits, but increases. Progressive rise in wages and standards of living does not encounter an insurmountable biological barrier, but just the reverse. The danger which North-Western Europe has to fear from such improvement is restriction of population, not a "devastating torrent of children." Finally, the classic economists are confronted with the confessions of their present-day successors, to prove that even the verdict of abstract economics is now in favor of the trade union contention, within certain limits, and that in the matter of Trade Unionism and the predetermined wages fund "the untutored mind of the workman had gone more straight to the point than economic intelligence misled by a bad method." But economists are to be distrusted, even bearing gifts; and the citation of favorable opinions concludes with the ungracious suggestion that these contemporary economic commendations are probably as little worthy of confidence as was the contrary verdict by the economists of a preceding generation. The truth is to be learned by the examination of facts, not theories.

If, therefore, we turn from theoretical abstractions to the actual machinery of industrial organization, the absolute necessity for Trade Unionism once more becomes perfectly clear. For the competitive system of industrial organization resolves itself, in the last analysis, into a long chain of bargainings, in which the buyers have immense

strategic advantages over the sellers, who are always bidding against each other to secure customers. This strategic advantage culminates, as we have seen, in the "anarchic irresponsibility" of the private customer. He is the ultimate source of the cumulative pressure for cheapness, which is transmitted with increased intensity from consumer to retailer, from retailer to wholesaler, from wholesaler to manufacturer, from manufacturer to wage-earner, until it settles with irresistible weight upon the isolated workman's standard of living. United trade union effort to support this crushing weight is, therefore, indispensable, both to protect the individual workman's standard of life and to prevent the whole industrial and social fabric from deterioration. There is something decidedly Marxian about this exposition of the inherent and diabolic depravity of the whole industrial mechanism of unregulated competition. Instead of the economic harmonies of beneficent competition and survival of the fit, under a "system of natural liberty," we have a malignant process of degeneration, which makes the good bad, the bad worse, and the worst most powerful. Under such circumstances any form of trade union regulations, even restriction of numbers, bad as it is, is preferable to perfect competition and the resulting subsistence wage. Even the capitalist producer cannot stand the pressure, and joins the revolt, seeking relief from the system of liberty in various forms of monopoly,—public franchises, patent monopolies, trusts and combinations, and devices for escaping the retailer and wholesaler by reaching the consumer direct, by means of advertisements and proprietary articles.

But it is not enough to avenge Trade Unionism and the unlettered workman against the pretensions of "obsessed" classic economists and middle-class employers. It remains for this analysis to show that Trade Unionism, instead of being artificial, has its roots in the instinctive and uncon-

scious manifestations of human nature. We have seen that the capitalistic revolt against industrial freedom finds expression in a great array of monopolistic tendencies. Over against this formidable array of monopolistic "dykes," which give the laborer little or no protection, and often do him great harm, the uncombined and resourceless wage-earner has always thrown up a powerful, mysterious dyke of his own,—the "instinctive standard of life," the minimum below which he will not render the services of his trade. This instinctive dyke has always impressed students and observers; and it is elaborately insisted on by the classic economists, who dwell endlessly upon the fact of the customary minimum, differing in different trades and in different countries and in different localities of the same country, but could suggest no satisfactory explanation for the phenomena. Had they not been "obsessed by the fallacy of a predetermined wage-fund, they would have perceived, in this clinging of each generation to its accustomed livelihood, a primitive bulwark against the innovation of fixing all the conditions of labor by 'free competition' among candidates for employment." To the "modern observer," who may be slightly obsessed with the notion of collective bargaining, it is evident that this "identical notion" of what constitutes subsistence "is in itself equivalent to a tacit combination." That which the obsessed classic economist saw, but did not perceive, was unconscious and instinctive Trade Unionism, equipped with an "incipient Common Rule," and supported by a prolonged refusal to work, which "is virtually a universal strike."

But, powerful as this unconscious and instinctive Trade Unionism is, it has grave defects, arising from the indefiniteness and lack of uniformity as to the standard of life, from lack of reserve funds to support the actual strikers, and from the fact that instinct and custom do not change fast enough to take advantage of the fluctua-

tions of modern industry. Conscious Trade Unionism, therefore, simply remedies these defects. Tacit combination becomes explicit. The instinctive standard is made "precise and uniform" by elaborate standard rates, piece-work tests, scales fixing working hours and limiting overtime, special rules for sanitation and safety, and all the infinite variety of trade union regulations. The method of Mutual Insurance supplies the reserve fund for strikes or out of work, which enables all alike to command a "reserve price" for their labor. The method of Collective Bargaining by the agency of "professional experts" and salaried officials keeps the price of labor from falling in bad times, on the one hand, and advances it promptly to take advantage of favorable fluctuations. The method of Legal Enactment crystallizes in the factory code the advantages gained, and "fortifies the workman's original bulwark by the unyielding buttress of the law of the land."

Thus is the involved evolved. The workman is a trade union animal. Instead of being "artificial," Trade Unionism is natural, almost inevitable. In the course of economic evolution it evolves, as a part of the protest against doctrines of "natural liberty." Not the economic man, but the trade union man, is the normal and scientific unit of industrial society.

Finally, in the industrial apocalypse, or prophetic "vision of the sphere of Trade Unionism in the democratic State," with which the Collectivist Canon closes, we see a purified and democratized Trade Unionism, stripped of the transitional imperfections of the doctrine of Vested Interests and the device of Restriction of Numbers, standing hand in hand with political democracy. The energies liberated by State enforcement of the National Minimum will find higher expression in the discriminating application of the doctrine of Demand and Supply to a perpetual improvement in the efficiency,

public utility, and consequent standard of life in each trade. The gradual shifting to the State and special organizations of all the burdens of Friendly insurance—with the permanent exception of Out-of-work Benefit, or "Donation"—will leave room for the oversight and organization of those technological branches of industrial education which are destined to replace the antiquated notions of apprenticeship and to be paid for out of the public funds. "With the progressive Nationalization and Municipalization of public services on the one hand, and the spread of the Co-operative movement on the other," trade unions will, therefore, assume the character of professional associations. "The Trade Union will be a definitely recognized institution of public utility to which every person working at the craft will be imperatively expected, even if not (as is already the case in regard to the appointment of a check-weigher) legally compelled to contribute."

Such, in outline, is the new collectivist philosophy of Trade Unionism, and, incidentally, of society in general. The only adequate comment on such a body of doctrine is a concise statement of it. Taken in detail, and diluted by fourteen hundred—or even eight hundred—pages of historical and speculative detail, the consistency and temperamental character of the whole body of doctrine may easily be obscured. It is obviously not so much a theory of economics as a temperamental gospel of social reform. It is another important and ambitious attempt to reveal to the British workman what ought to be his unconscious aspirations, purposes, and prepossessions, and to formulate a programme and insinuate advice in the name of history. It is another prophetic tender of intellectual leadership to those who are wandering aimlessly in the wilderness of opportunism and self-help. It is another plan for saving the race from the wasteful process of experimental progress, by furnishing in ad-

vance a consistent scheme of social philosophy. Like most gospels of social emancipation, it has its denunciatory and its triumphant tone. There is something eminently clear in the brutal frankness with which it breaks with the old world of conventional and accepted ideas. Instead of the doctrine of the beneficence of competitive freedom, we have the dogma of the total depravity of complete competitive freedom; instead of liberty of individual contract, the new compulsory freedom of collective contract. There is no sophistical attempt to reconcile trade union ideals of a common rule and collective bargaining with absence of coercion and liberty of choice of non-unionists. Such industrial non-conformity is only tolerated as an illogical result of weak organization. Realization of the trade minimum and the national minimum involves the deliberate abandonment of illusory ideals of liberty: otherwise Collectivism would have little interest in such realization. "Freedom," unregulated competition, is the worst possible state: hence any method of regulation, however imperfect and antiquated, is better than none. To efficient enforcement of the common rule everything else must bow. The friendly benefits of Trade Unionism are, therefore, not amenable to the actuarial tests of scientific insurance. Insurance funds are only adventitious accompaniments of collective bargaining; and the workman's claim upon them for sickness, accident, and old age, is always qualified by the proviso,—if there is anything left. For this reason Trade Unionism seeks to maintain the legal anomaly which now protects its funds against the prosecution both of employers and disaffected members. The militant ideal of collective bargaining also calls for jealous hostility to all insidious attempts to blur the lines between capital and labor, whether in the name of philanthropy or of individual improvement. Hence in this trade union decalogue we find the prohibition of all participation in schemes for

profit-sharing, and for mutual insurance and friendly co-operation by employer and employee; in all such devices as "self-governing" workshops; in all liberal schemes for creating conservatism and content by making workmen owners of house or land. All these things tie the workman's hands, diminish his bargaining efficiency, and make for conservatism in the hour of contemplated strike. If the trade unions shall be true to this revelation of their nature and mission, the "vision" of the future is indeed stimulating and triumphant. The institution which the wise and learned and powerful have despised, rejected, and persecuted, shall prove to be the typical exemplar of the democratic spirit, the permanent embodiment of industrial ideals, the conscious realization of instinctive human nature, the corner-stone of the social and industrial edifice.

It is obviously a good propagandist move to try to show that large fraction of the population known as the working classes what they have been, are, and by right ought to be. Nothing succeeds like the conviction that the new reform is only an application of an old principle. Nothing predisposes the "unconscious" philosopher to live up to his newly revealed creed like reading a rational demonstration of a coherent and far-sighted policy into his groping, incoherent past. Once reform is found to be an application of long-recognized principles, half the battle is won, and instinctive conservatism becomes an ally of innovation. It is, therefore, an event in the history of any movement when it finds a competent historian. It is a still more significant phase of any movement when it finds, not only a sympathetic chronicler of its past, but a propagandist expounder of its unconscious philosophy, a formulator of its "inarticulate" principles and aspirations, a codifier of its past and prophet of its future. The political radicalism which styles itself Collectivism has clearly adopted trade unionism as the typical workingmen's organization, with

largest political possibilities before it. It remains to be seen whether the workingmen's organizations will adopt Collectivism,—whether trade unionism will fall in love with its own portrait, drawn by a masterful hand, and endeavor to live up to its prophetic reputation.

Doubtless the absolutely impartial historian and investigator is an ideal desideratum, but it is part of the avowed psychological creed of this treatise that such an ideal attitude is humanly impossible. The inquirer is shrewdly warned that it "must never be forgotten that every man is biassed by his creed and his self-interest, his class, or his views of what is socially expedient. If the investigator fails to detect this bias, it may be assumed that it coincides with his own." In accordance with this didactic confession it is pertinent to ask, What is the dominating bias of these investigations? Certainly not the bias of the so-called orthodox, or classic, economist. He comes in for his full share of contempt. Not the bias of that obsolete abstraction known as the individualist. He is treated as the economic scapegoat of civilization. Not the old-fashioned bias "which inspired the proposals of Lassalle, and most of the inferences drawn from Karl Marx's Theory of Value, whilst it still lingers in the declarations of German Socialism and its derivatives." It is the bias of that new and true collectivist socialism of the "unearned increment, arising from the progress of invention and organization of population and capital in dense masses, upon which the modern English socialist bases his demand for collective ownership of the means of production, and the subordination of the producer to the citizen, and the individual to the community."

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NATURAL DIVISIONS IN ECONOMIC THEORY.

IN a recent article in this Journal I called attention to the impossibility of dividing political economy into four distinct parts, by following the traditional plan of division. Production, distribution, and exchange are not distinct operations. I suggested a division of the science based on sociological evolution. According to this plan the first division contains universal principles, which hold true whether society is organized or not. It defines wealth and describes the varieties of it. It describes also the agents of production, and tells how they severally work in creating wealth, and under what conditions they work well. It contains, in short, the treatment of labor, of capital, and of the manner in which they combine to make the earth fruitful. It tells of the various kinds of utility that these agents are employed to create, such as elementary utility, form utility, place utility. It presents a law of variation in the productive powers of these agents, whereby, if one of them becomes comparatively abundant, then a single unit of it produces comparatively little, while, if one of them becomes scarce, a single unit of it produces a great deal.

This part of the science has nothing to say about hired labor or loaned capital; for these things depend on social organization, and the distinctive fact about this part of the science is that it contains no facts or principles that depend on social organization. It contains only a statement of what takes place wherever man subdues the earth, and makes it useful. It can have nothing to say about wages and interest as ordinarily understood; yet it presents a law by which wages and interest are determined,—a law, namely, of final productivity of labor and of capital.

In like manner this division of the science has nothing

to say about market value, since that also is a social phenomenon, and not a universal one. Nevertheless, it presents the principle according to which values are determined; for it is a universal fact that final utilities are small when commodities are abundant, and that they are large when such things are scarce. A sailor stranded on a rock, and with a single sea biscuit in his possession, is in a position to appreciate the high final utility of bread. If fish are abundant, he can also estimate the low final utility of fish. He has no chance to make exchanges, but the law according to which exchanges are made operates in his case with a full measure of force.

The second division treats of Catallactics. It adds to the universal phenomena whatever results from exchanges. It is a science of organized economy, and puts before the mind a picture of society as a single organization, working in its entirety to produce wealth, and apportioning it among its members.

The socialization of economic life arranges producers in groups and subgroups. What we here term a group produces one complete article, and sells it. High organization, however, prevents any one body of persons from producing an article in its entirety; for no one set of men gets out of the earth, as it were, the rawest materials that enter into the article and fashions it to completion. The general groups are divided into subgroups.

A'''	B'''	C'''	H'''
A''	B''	C''	H''
A'	B'	C'	H'
A	B	C	H

Let A represent a raw material taken from the earth, and let A' represent that material carried by one stage towards completion. A'' will represent it near to completion, and A''' will represent it as quite ready for the consumer.

It may be that A is the skin of a live steer on a Western ranch, that A' is raw hide, that A'' is tanned leather, and that A''' is shoes. In like manner B is the raw material which ripens, through a similar series of changes, into B'', which is another article for consumption. C is a third raw material, and C'' is that material fully completed. H is the raw material that enters into the tools that are used in the various processes, and H''' is a complement of tools ready for use. Every one of the subgroups uses instruments and wears them out, and the H''' group supplies the waste.

We have now a severely simple picture of what is happening in the industrial world. The groups are innumerable, and they have their complexities; but the method of production and of distribution that is going on can be clearly described in terms of such a simple form of society as the one that our table represents.

In this second part of the treatise we are studying a static society. We want to know what happens in consequence of organization, and nothing else. We want to keep out of our minds what further happens by reason of changes that are all the while going on in society. If the A''' group is growing smaller and the B''' group is growing larger, that change and all the influences that cause it are to be studied; but the study does not come at this stage. There are problems enough in a merely static society to occupy us for a while. We must therefore practise the isolating method in a heroic way. We must bring before our minds all that happens in consequence of mere organization, and nothing that happens in consequence of change, growth, and progress in the organization.

We must study, then, a society that, in imagination, we have reduced to a static state. What are the conditions of that state? The sign by which we know it is simple. It is that labor and capital do not flow from group to

group, and from subgroup to subgroup. A''' does not grow smaller, and B''' larger. Where there is no change in the comparative sizes of the subgroups, society is static.

This, however, does not tell us what are the fundamental qualities of such a society. It gives us a mark by which we could know a static society, if we could ever find one. What we need to know, however, is why labor and capital do not move from point to point in the system. What is the cause of their stationary condition? It is not that their movement is obstructed: it is that they have no inducement to move. A unit of labor or a unit of capital is as productive at A as it would be at A', or at B'', or anywhere else in the group system. It can gain nothing by moving, and it stays where it is.

Perfect mobility on the part of the economic agents, without any movement, is characteristic of the static state. We cannot here describe it with any completeness. The lack of movement is due to a certain uniformity in the productive power of each of the two agents of industry in the different parts of the system. It is this that brings about a state of "natural values." Representing the producing groups in such a condition as this really describes what the classical economists had in mind when they said that everything tends to sell at its cost of production. If A''' as a whole sells for just what it costs the *entrepreneurs* to produce it, and if B''' and C''' do the same, and if the particular utility that each subgroup creates also brings to the *entrepreneur* just what it costs him to create it, then all values are natural.

Cost values for everything really involve, in the end, uniform wages and interest. It is conceivable that, for a time, A''' might be a scarce and high-priced article. The production of this article would then be stimulated, and the price would be reduced. It is also conceivable that, for a time, wages in the group A''' might be high. That would mean, however, that *entrepreneurs* in the A'''

group could gain something by hiring laborers out of the B''' and the C''' groups; and they would be quick to do it, so long as the difference in wages continued. There is always an inducement to create more of an article when the price of it is high; and there is also an inducement to import labor into the group in which wages are high. The complete adjustment which the early economists really had in mind is never completed until, first, every article sells for its cost, and, secondly, the cost of the agents of production, labor and capital, is uniform throughout the system. One employer pays as much for labor of a given grade as does another, and they all pay the same rate of interest.

A static society, then, is in a no-profit state; and it is a state of uniform productivity for labor and of uniform productivity for capital. These conditions account for the absence of movement between the groups. They tell us clearly why labor does not go from A''' to B''' or elsewhere. There is a universal equilibrium. The inducement to move labor or capital in one direction equals the inducement to move it in any other direction. Each unit of labor remains *in situ*, and each unit of capital does the same.

If we had time further to describe this static condition, we should reveal a number of things about it that are essential to the understanding of the dynamic state. The classical economists presented, under the head of natural values, an incomplete conception of a static society. If they had gone far enough, they would have discovered the law of Wages and Interest in the same way. Values are natural, in the classical sense, when nobody makes a profit, and when labor and capital are as productive in one place as they are in another. Wages are natural, if, in this condition, labor gets exactly what it creates. Interest is natural, if capital also gets what it creates.

If a régime of equalized productivity is also a condition

of naturally rewarded productivity,—if it is a condition in which labor gets, as wages, exactly what it creates, and in which capital gets, as interest, exactly what it creates,—then the conception of a static state is complete. There are no profits in such a state, and there is no movement of the economic agents from point to point in the system. By these signs we know it.

Of course, we cannot here go into the proof that such a state as the one that we have just described is in fact the one towards which, at every point, society is tending. A volume on Social Economic Statics should furnish the proof of this fact. What we are trying now to accomplish is to show what is the content of the second division of economic theory, where the science is divided in the manner that we have suggested. It discusses Values, Wages, and Interest in a static condition of society. It discusses Profits, to the extent of showing that in a static condition there are none. The task is completed when it has done these things. It rigidly keeps out of sight change, movement, friction, disturbance, reorganization, —everything that comes under the head of Dynamics.

We now undertake to say, in a general way, what is the content of the third division of economic theory. It occupies itself with those changes which the static division omits. It describes variations in which actual life abounds. If we are to describe it within any brief compass, we shall have to assume that our theory of economic statics is the true one, and that profits do tend to vanish, that values do tend to adjust themselves to cost, and that wages and interest do tend to adjust themselves according to the specific products of labor and of capital.

Even if we were wrong in these assumptions, there would still have to be a static division of the science, and also a dynamic one. If values, wages, and interest did not tend to conform to the standards that we have here de-

scribed, they would certainly tend to conform to some standards; and any standards that they could attain, and that, in the absence of social changes, they could hold, would be static ones. We shall assume that our theory is correct, and that cost values, on the one hand, and productivity wages and interest, on the other, tend universally to prevail. We shall assume that, if we could stop the progress of the world, and let competition act in ideal perfection, society would take the static shape and hold it forever.

Five comprehensive changes would have to be brought to an end, in the actual world, if this were to happen. First, labor and capital would have to stop increasing in quantity. The population of the world, the amount of its accumulated wealth, would have to remain forever fixed.

Secondly, methods of production would have to stop changing. We should have to put a quietus on inventive activity. Let there be no new kinds of productive machinery. Let the earth be tilled forever in the manner in which it is tilled to-day, and let the shops and the mills go on forever doing exactly what they are now doing, and in precisely the same manner. Let there be productive action, but no change in the mode of this action.

Thirdly, there would have to be no change in the relations that men sustain to each other in the process of organized production. The big establishment would have to stop swallowing the little one; and this involves the condition in which there are no little ones surviving, except those which, for local reasons, can hold their own in competition with larger ones.

Fourthly, there must be no changes in the character of the wants to be gratified. Humanity must stop that mental progress which forever multiplies and refines its wants, and makes it necessary to produce things in ever-increasing variety. In the static society the quantity of the productive agents, the method of their action, the form of

their organization, and the wants that they supply are fixed. With either one of these elements changing, the régime of cost values and of uniformity in the product and the pay of labor comes to an end.

The static state is imaginary. It is like the level of surface of the sea that, in an imaginary way, we can project through the waves on a stormy day. If the winds were to stop, the sea would actually take a level and glassy surface; and this would correspond, in height and form, to the static surface that we have imagined. So, if economic changes and disturbances were to cease, the producing groups would take the static adjustment that theory calls for; and, as we have said, the test peculiarities of that adjustment are these: values would always correspond to cost; there would be no profits; wages would be uniform in the different groups; interest would be uniform; wages and interest would correspond accurately with the products that can be severally attributed to labor and to capital.

In the actual condition in which dynamic influences have left the world there can be no general 'correspondence of values and costs. Even the costs of one article, as it is produced by different *entrepreneurs*, are not uniform. In every subgroup there are establishments that are creating the product more cheaply than others can make it. With the same market price for the article some establishments run at a profit, and some at no profit. A few may be running at a loss. Which of the various costs is the one towards which values are tending? It is certainly not the costs in the poorest establishments; for these are losing money, and must soon reduce their costs or get out of the field. It is not the cost of the no-profit establishments; for these, unless they change their methods, will soon be in the same condition,—that of being obliged to stop running. The better establishments are increasing their output of goods and lowering the

prices, and this will soon make the no-profit establishments to become losing ones. The establishment that makes no profit to-day will incur a loss later, and will stop running altogether still later. This is one type of change that is going on in a dynamic state.

The standard towards which prices are tending is not even the present cost in the best establishment; for this establishment is steadily enlarging its output, and with the enlargement itself there comes additional cheapness. It is the cost that will be incurred in the best establishment, when that shall have enlarged its output to the full extent called for by static law. Let improvement in methods cease; let all other dynamic changes cease also; let a limited number of the better establishments in each group gather to themselves nearly all the business of that group; let smaller establishments survive when they can cater to a certain local business and secure a certain additional price; let costs everywhere equal values; and let values, for a particular product in a particular place, be uniform. Then we shall have reached the static adjustment towards which the actual and practical world is, under mere competition, tending.

It is prevented from ever reaching that state. Let us see how this occurs. Let us take a single one of the disturbances that makes society dynamic, and trace its effects. Let us suppose that a mechanical invention occurs, and that it multiplies the product of labor. It yields a profit to the establishment that first uses it, but this profit is held by a precarious tenure. It will vanish when the output of the goods shall have become so large that the price of them will conform to the new and reduced cost. Establishments having inferior methods will then have disappeared.

What will have become of this profit? In common language, it is said it will have given itself over to the public in the shape of cheaper goods. Another way of saying

the same thing is that it will have added something to the value of all other products. When the output of A''' is doubled, the value of B''' and that of C''' are, by so much, increased. Labor and capital in B''' and C''' are virtually producing more wealth than they were doing, though they are producing the same amounts of goods. Moreover, labor and capital even in A''' are producing amounts that conform to the increased products in B''' and C''' . All labor and capital are, therefore, more productive than they were before. The profit that has vanished, under the influence of competition, has accrued entirely to laborers and capitalists. It is an increment of wages and interest. In disappearing as a profit, it has increased the pay of every workman and capitalist in the system.

How can the *entrepreneurs* perpetuate their gains if they have no monopoly? They can only do it by continuing to make improvements in the processes of production. Economy must follow economy, if the gains of *entrepreneurs* as such are to be anything. By a perpetual series of improvements the *entrepreneurs* may have an income that will continue, as it would do if they made only one improvement and had a monopoly of it. A perpetual series of such improvements will keep the costs of goods below their selling prices. It will keep costs tending always downward, and prices pursuing them. The prices will never catch up with the costs in the downward movement.

There are innumerable problems here that we have not time even to state. It is unlikely that the series of improvements that perpetuates profit will long continue to be made by a single establishment. In the race for economy, one *entrepreneur* will get ahead, then another, and then another. The profits of one establishment may vanish, and yet a surplus gain of this kind may always exist somewhere within the subgroup to which that establishment belongs. Moreover, it is conceivable that all profit

might vanish within a subgroup, at a particular date, and that it might reappear later. Profits then might be intermittent: they might disappear, and appear again. At the vanishing-point, values would momentarily correspond with costs; but, with the next further economy in production that should be made, costs would get ahead of values in the descent.

As a rule, profits vary from time to time in amount, but always exist somewhere within a producing group. Profit from any one cause vanishes, and adds itself to wages and interest; but profit, as a variety of income, perpetuates itself by an endless series of improvements.

This means increasing gains for labor. Wages at this moment are not so high as they will be when the profit that exists at this moment shall have added itself to wages and interest. By the time that that shall have been done, moreover, a new profit will have come into existence, calling for a further rise in wages.

The dynamic standard of wages, then, is an endless series of static standards, each one of which is higher than the preceding one. The standard of pay for labor is rising; and the actual rate of pay is pursuing it, but is always, by a certain interval, behind it. Dynamic science studies the interval and the rate of movement. It tells why the standard rises, why the actual rate pursues it, and why it does not overtake it.

The rate of interest would also be a rising one if economies in production only were to be considered; but, by profits and otherwise, great quantities of new capital are coming into existence, and this overcomes the influence on the rate of interest which improvement alone exerts. The *amount* of interest increases, like the amount of wages; but the rate of interest tends downward. This downward tendency, however, is the result of a second dynamic influence, and one that we are not now considering. If there were nothing to be studied except improve-

ments in method, both the rate of wages and the rate of interest would be forever pursuing rising standards, though the two standards would rise with different degrees of rapidity.

The origin and the destination of profit is one chief subject of Economic Dynamics. That science, if it were complete, would examine *seriatim* the various changes that bring profit into existence, and the mechanism by which, under the influence of competition, that profit is ultimately diffused throughout the whole of society. It would study the effects of this diffusion on wages and interest.

We have said that the interval between the actual rate of wages and interest and the standards towards which they are tending is a subject for such a science. So is the rapidity with which the standards change. In these studies disturbances and friction have to be considered. Everything that interferes with the creation of normal profit, and everything that checks the diffusion of it and renders the increase of wages and interest smaller than it would otherwise be, is to be included in the scope of the theory. Monopolies and *quasi*-monopolies act in this way. A fluctuating and untrustworthy currency does so. Unintelligent import duties and bad taxes generally do the same thing, and so do many other influences.

It is to be noted that the plan of division that we have here suggested applies primarily to the pure theory of Economics. Whenever, for purposes of convenience, it is desirable to separate the treatment of such practical questions as the currency, the tariff, taxation, from the treatment of Economic Theory, and to present each one in a book or a part of a book by itself, then each one of these practical questions may be treated, first, in a static way, and then in a dynamic way. In connection with the currency, for example, it is possible to assume, first, that society is generally in a static state, and that the volume and the quality of the circulating medium remain unchanged.

The static laws of currency may be completely examined under this hypothesis. Then changes in the volume of the currency and in the volume of business may be introduced, and the effect of such changes may be noted. The treatment of particular practical questions may thus be isolated, and each question may be discussed by itself; or, on the other hand, the static phase of such a subject may be discussed in the general division of Static Economics, and the dynamic phases may be treated in connection with Dynamic Economics. Under this latter plan the whole of economic science, theoretical and practical, would arrange itself in the three divisions that we have suggested. There is, however, much latitude admissible in discussing particular questions of applied science. What is clear is that each of these questions must, in some way, be treated first statically and then dynamically; and what is further clear is that none of them can be treated intelligently and completely, unless the treatment is preceded by the study of Economic Theory, both static and dynamic. It is the pure theory alone that we have had chiefly in mind. A natural arrangement of this branch of the science, as we claim, presents: first, the universal principles; secondly, the static principles; and, thirdly, the dynamic principles.

We have stated that five comprehensive changes constitute the dynamic movement. The theory of Dynamic Economics must study each one of these generic movements separately; and it must then study them in combination of each other, and see what resultant effects they all produce. This involves a myriad of detailed studies that we cannot even specify. Dynamic science is limitless.

Some of the most important applications of this theory have reference to the relation of different parts of the world to each other. We have spoken of society without defining the limits of it. Does it mean the whole world? In a sense, it does so, since there is no part of the inhabited

earth that could be turned into a desert or sunk beneath the sea, without producing effects that would be felt in every other part of the world. This interdependence goes to make the whole world a society. Yet, if society includes all men, it is certain that some of them are very slow to feel the effects of economic influences that originate in quarters remote from where they live. A profit created by a Yankee invention does not, within any time that we have to consider, raise wages perceptibly in equatorial Africa. We are studying and are obliged to study effects that are realized within short periods; and, therefore, we have to draw some limits around the society that we are describing.

On what lines does this delimitation of society proceed? The world is, in fact, divided and subdivided in a very complex way; but, for the purpose of illustrating dynamic laws, a very simple division may be made. There is an economic centre of the world. The distinguishing thing about it is that competition is very active within it. Labor and capital move to and fro readily, and profits that originate anywhere within this centre produce their effects, in raising the pay of all laborers and capitalists, within relatively short periods.

Around this centre there is an outer zone, which is separated from the centre by certain barriers. Competition within this zone is comparatively sluggish, and competition between this zone and the centre is particularly so. Labor and capital do not readily migrate across the boundary. Methods of production originating within the centre are not readily assimilated in the outer zone. It is a long time before the profit realized by the *entrepreneurs* of the central area affects workmen and capitalists in the outlying area; yet in the end it does reach them. Labor and capital do migrate across the boundary. Methods are, now and then, assimilated. An invention made in the highly civilized region will, sooner or later, affect the

economy of the less advanced one. If we could wait long enough, we should perhaps see a large number of the improvements that have recently been made in productive processes adopted within that zone in which the processes are now much more primitive.

Beyond this outer zone there is an outermost area,—the unlimited remainder of the world. Between this outermost area and the central one there will be, within any period that we care to consider, no connection except a trading one. Trade between the centre and the outermost area is particularly profitable, for the industries of the two sections are of widely different types; but within the period to which we limit our studies there will be no other connection of any importance between these areas.

A peculiarity of this rude mode of division of the economic world is the fact that the boundary lines are not fixed, but are forever extending. The centre is annexing belt after belt of the outer zone, and the outer zone is annexing belts of the outermost zone. Ultimately, perhaps, in that dim and distant period in which dynamic law shall have absolutely completed its work, the centre may have annexed the whole of the outer zone; and this outer zone itself, as thus annexed, may have already included all of the outermost area that is capable of annexation.

The economic centre of the world would, in this case, include the whole temperate area of the inhabited globe, in both hemispheres; while the unassimilated remainder of the world would be contiguous to the equator and to the two poles.

The graphic arrangement of the world in concentric circles or zones is, of course, a mere figure. It is designed to express the thought that some parts of the world are very intimately associated with each other, and other parts are divided from these parts by something that makes economic influences in the former parts less efficient in the latter. Very irregular is the geographic shape of what

we have called the economic centre of the world, and still more irregular are the shapes of the outer parts of it.

The most characteristic fact about these zones is that profit may originate and diffuse itself again and again in the central area before making much impression elsewhere. If we follow the effect of a particular profit, originating, for example, in the invention and use of a particular machine, we shall find that it is, at first, held by certain *entrepreneurs*. They hold it, as we have said, by a precarious tenure. Soon it will be an addition to wages and interest within the central area. Laborers and capitalists here, however, in their turn, hold this gain by a precarious tenure. That slow action of the economic law by which influences from the centre make themselves felt in the outer zone will, in the end, give the laborers and capitalists there a share of the benefit. Long before that has happened, however, further improvements will have been made; and they will have raised wages and interest within the centre to a still higher level.

Already, then, we see three divisions through which profit must pass. It is, first, a gain in the hands of *entrepreneurs* within that economic section where improvements originate. It is, next, the increment of wages and interest within that same section. It is, thirdly, made to become in part an increment of wages and interest within the outer section.

Profit can only perpetuate itself by means of an endless series of improvements. We leave monopoly, for the time, out of mind, and in doing so can find only one way in which the *entrepreneurs*, as a class, can perpetuate their income. It is by making a new economy in production before the fruits of earlier economies have entirely gotten away from them.

The premium on wages and interest in the central area, which keeps them above wages and interest in the outer zone, may be called *quasi-profit*. It is the *entrepreneurs'*

gains as surrendered to the laborers and capitalists in a favored region. These classes hold each particular part of the *quasi-profit* transiently. Sooner or later the laborers and capitalists of the surrounding area will share it with them; but this does not mean that, in the whole great area, wages and interest will ever be at a level. *Quasi-profit*, like profit itself, may exist forever by means of an endless series of accretions.

Here, then, are two permanent incomes, each specific part of which is held only transiently. *Entrepreneurs* cannot long keep a particular profit. Workmen and capitalists cannot forever keep a particular gain when it has become a *quasi-profit*. Nevertheless, *entrepreneurs* will never be without profit; and laborers and capitalists of the centre need not ever be without *quasi-profit*. It is all a question of leadership in the economic advance that the world is making. The competing *entrepreneurs* that keep ahead of others in the race for improvement may have surplus gains forever. The regions of the world that keep ahead of other regions may have surplus gains forever.

There are innumerable questions to be solved concerning the relations of the great areas of the world to each other, and the changes that are taking place in those relations. Particularly, at this date, are there questions of much importance concerning the relation of the economic centre to the very outermost areas of organized life. Governments are taking action that vitally affects these relations. A mere enumeration of the detailed problems that this presents would make an article of considerable length. It is enough, however, for our purpose, if we have described the character of the work that properly belongs: first, to the Universal Economic Theory; secondly, to the theory of Economic Statics; and, thirdly, to the theory of Economic Dynamics.

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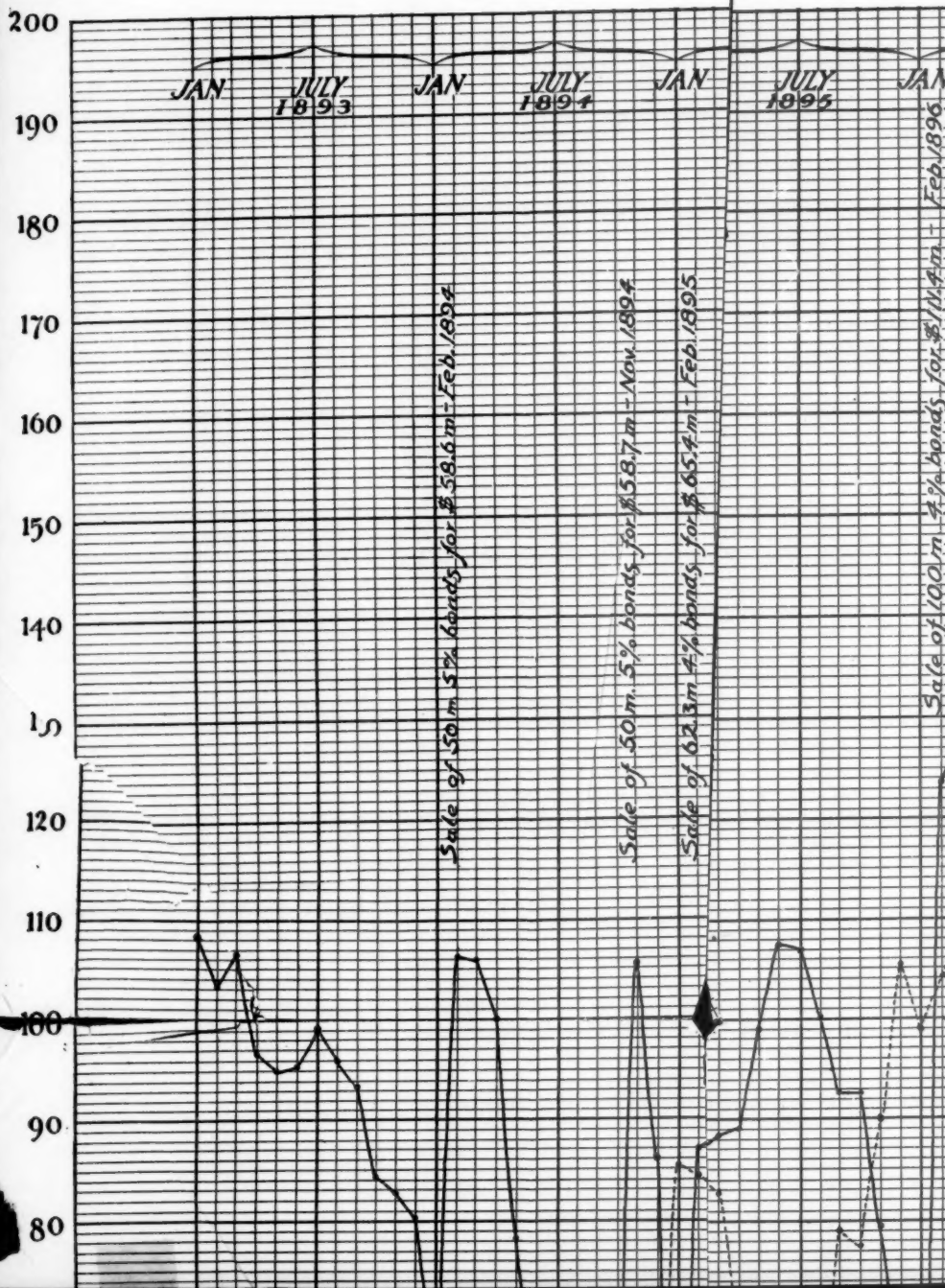
THE UNITED STATES TREASURY IN 1894-1896.*

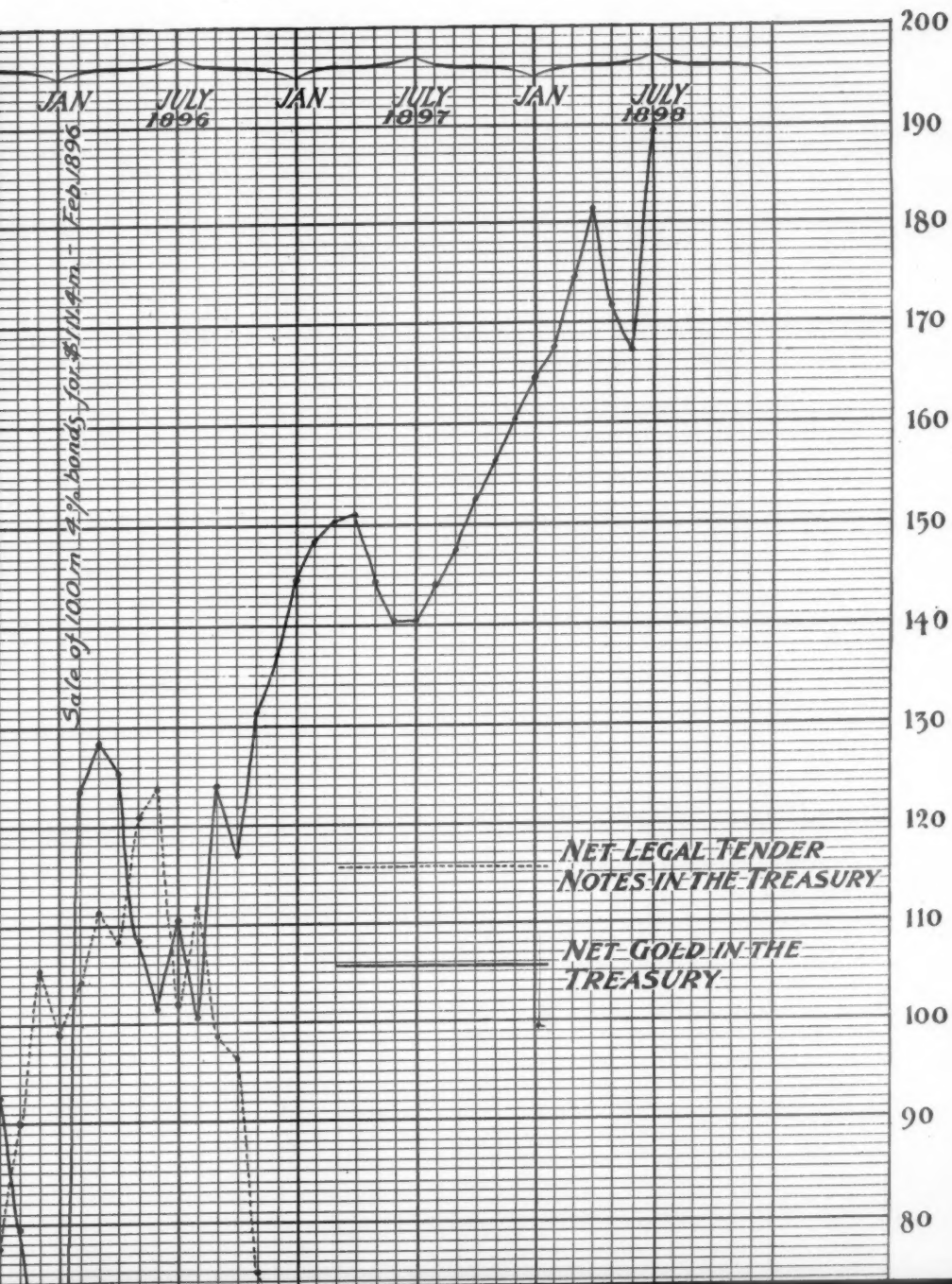
I PROPOSE in the present paper to consider some aspects of the recent financial history of the United States, and more particularly some of the monetary operations of the Treasury during the years of depression that followed the crisis of 1893. The salient events of the period,—the struggle with a declining revenue, the continued drain on the gold holdings, the repeated danger of the Treasury's collapse, the successive loans needed to save it from virtual bankruptcy,—these are fresh in the memory of all. I wish to direct attention to one phase that has perhaps not received due attention. This is the mode in which the Treasury dealt with the outstanding legal tender notes during the years in question, and more particularly during the years 1895 and 1896. An attentive examination of this phase of the history will bring into strong light the difficulties under which the Treasury inevitably labors under our present anomalous system or lack of system, and it may also bring some light on mooted points in the general theory of money and banking.

The appended chart will make it easier for the reader to follow the movements to which I wish to direct attention. The two lines show what were the holdings of gold and of legal tender notes by the United States Treasury from 1893 to 1898. The unbroken darker line shows the holdings of gold, the dotted lighter line those of legal tender notes. In both cases the figures on which the chart is based are those of the net holdings at the close of each month. For the gold the line thus indicates the net holdings of gold coin and bullion by the Treasury, less gold certificates outstanding. For the legal tender notes the line indicates the holdings of United States

* Read at the meeting of the American Economic Association, Dec. 28, 1898.







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120

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100

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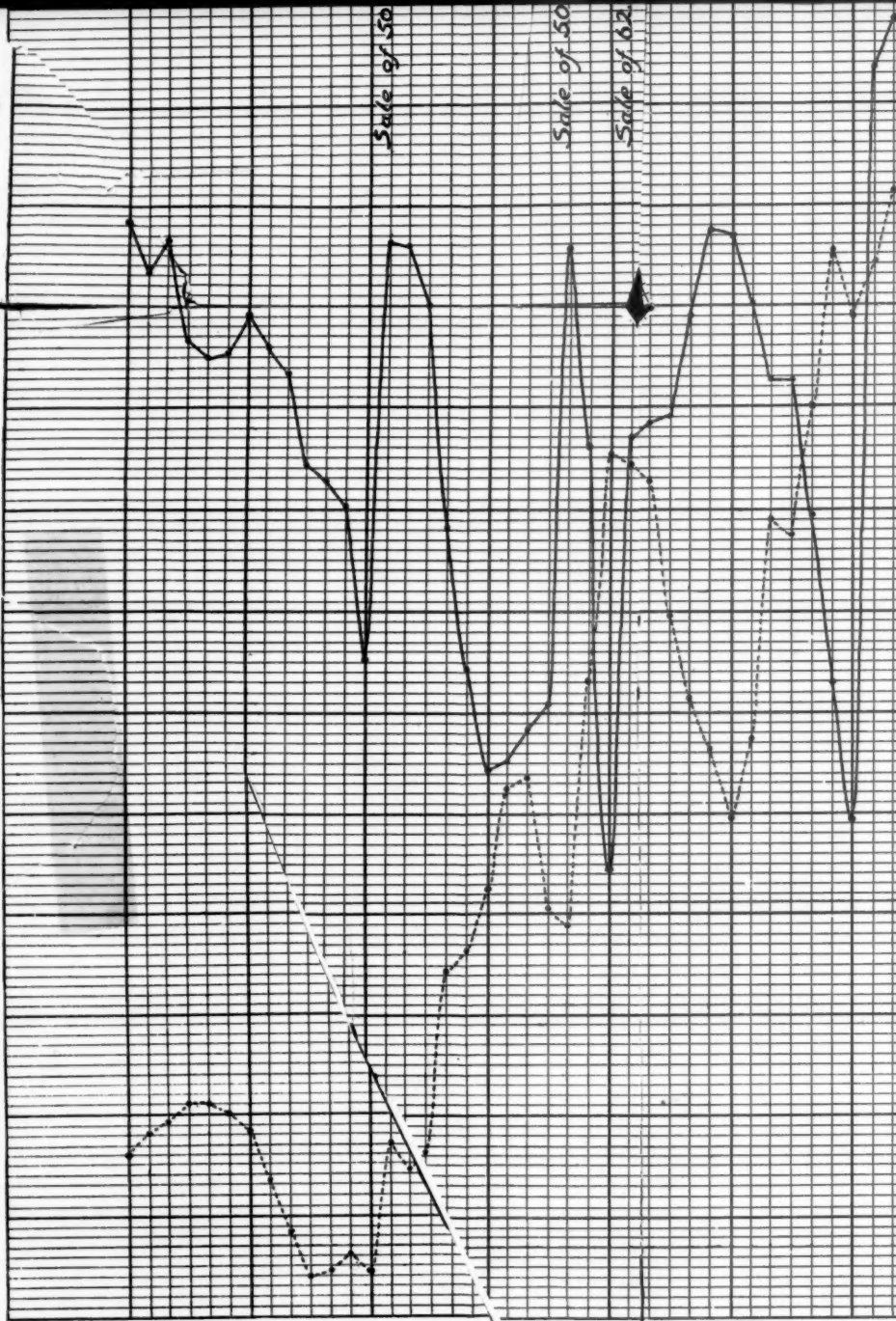
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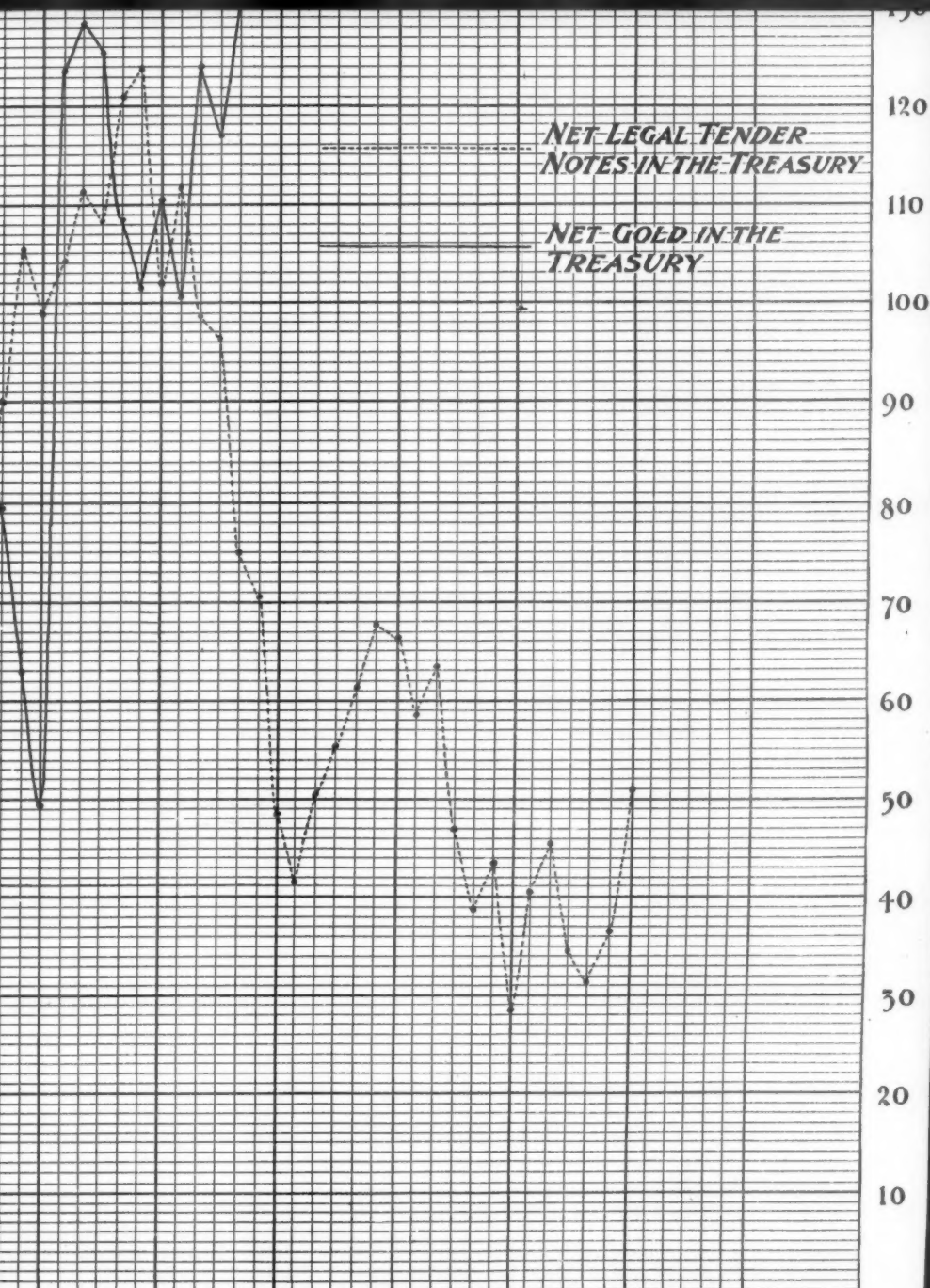
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Sale of 50

Sale of 50

Sale of 62





notes and Treasury notes of 1890, less currency certificates outstanding. In the Treasury statements the two kinds of legal tenders—United States notes and Treasury notes—are commonly stated in separate columns; and care is not always taken to show that the gross holdings at any time must be corrected for the outstanding currency certificates. In constructing the chart, figures have been used which show the net legal tenders held by the Treasury. The two kinds of legal tender notes, being in almost all respects identical, have been added together for the respective dates; and the net holdings have then been made out, as in the case of gold, by deducting the amount of currency certificates held by the public.*

First, as to the gold holdings. The lines of the chart bring into sharp relief the checkered history of the Treasury in its endeavors to maintain a gold reserve. The continued drain on its holdings led to repeated depletion and to the four successive loans of 1894-96. At the beginning of 1893 the stock stood at about 100 millions. After a year it had so fallen that in February, 1894, the first loan was made by the issue of 50 millions of 5 per cent. bonds; and the stock was thus brought above 100 millions. It soon began to fall, however; and, by the close of the year (November), another loan of 50 millions was necessary, once more bringing the line on the chart above the 100 million mark. Again, and this time with a rapidity almost fatal, the stock sank; and within three months a third loan had to be made,—the much-discussed syndicate loan of February, 1895. For a while the special stipulations made in this case with the lenders, designed to prevent the dissipation of the dearly bought supply,

* Currency certificates are authorized only on the deposit of United States notes; i.e., of the legal tender paper which dates from the Civil War. No certificates may be put forth against the Treasury notes issued under the act of 1890. Hence, strictly speaking, the net legal tenders in the Treasury consist of (a) the United States notes held, less currency certificates outstanding, (b) all the Treasury notes.

seemed to secure the desired end. During six months the stock remained, if not amply adequate, at least at a decent point. But by the close of 1895 and the beginning of 1896, a fourth fall took place; and in February, 1896, a fourth loan was made, this time the subscription loan of 100 millions. At last the end seemed to be attained: the gold of the Treasury, though somewhat depleted in midsummer of 1896, remained above the 100 million mark, and in the latter part of the year rose sharply. Through the following year (1897) it was steadily high, and for the time being apprehensions regarding it ceased.

Turn now to the other line on the chart. The changes there indicated, though much less noticed in general discussion, are no less significant. The holdings of legal tender notes by the Treasury undergo fluctuations as great as those in its holdings of gold. At the outset, in the beginning of 1893, the stock was small, exceptionally small. The inadequacy of the revenue of the Treasury to meet its current expenses had begun to appear as early as this, in the closing months of President Harrison's administration; and the cash on hand for ordinary expenses was at a low ebb. The stock remained small through 1893; but in 1894 it rose sharply and almost continuously, and by the opening of 1895 the Treasury held some 85 millions of legal tenders. After a decline in the first half of this year (1895) the stock again rose, passed the 100 million mark before the year was out, and remained at some such figure through the greater part of 1896. For a period of about a year—from November of 1895 to October of 1896—the Treasury locked up in its vaults continuously the huge sum of 100 millions of legal tender notes. Not until the close of 1896 was any serious inroad made on this accumulation. Then a sudden drop took place, some 50 millions of legal tenders were let loose within three months, and the holdings shrank to dimensions still large, but not so obviously in excess of any possible requirements for current expenses.

It is to the significance of the changes in these holdings of legal tender notes that I wish chiefly to direct attention. It seems the more worth while to do so because the public documents and reports issued by the Treasury tell us singularly little on the subject. Evidently, in the fiscal year 1895-96, a very important part of the Treasury's operations was the accumulation and retention in its vaults of some 100 millions of notes. Yet, while the fluctuations in the gold stock are much discussed, those in the note holdings, though quantitatively quite as important, receive no mention. Neither in the reports of the Secretary of the Treasury nor in those of the Treasurer is there one word of reference to this striking part of the Treasury's doings. Nor is much said on the subject in the commercial and financial journals. The curious inquirer must ferret out the facts in the cumbrous statistical statements from the Treasury, and must then seek an explanation of the movement for himself.

Let us now recall some of the industrial phenomena of those years. The summer of 1893 witnessed an acute commercial crisis, which, once the fever had run its course, was followed by the usual period of lethargy and depression. During the crisis itself, cash was in eager demand, and was hoarded by individuals, by savings-banks, and, indeed, by the commercial banks themselves; for there was a partial suspension of cash payments over the counters of the banks. The form of cash which was most in demand was the legal tender note. The public was so habituated to paper money for its daily transactions that gold was little asked for; while among the banks themselves there was the additional factor that gold was expected in many quarters to go to a premium, and so was sparingly paid out. The stock of legal tender notes in the New York banks shrank from 60 to 22 millions, while that of the Treasury (as the chart indicates) became virtually nil. The breakdown in the ordinary

machinery of credit was such that cash was urgently called for by individuals, by savings-banks, by country banks; and the total of the legal tender issues was in circulation, or, at least, in use by the public.

After the crisis the equally familiar phenomenon of a plethora of money appeared. With cessation of the acute stage, and with the ensuing depression in industry, the circulating medium, swollen by the great issues of Treasury notes under the act of 1890, became excessive. The cash not needed for the current operations of trade, and no longer called for by the extraordinary demand of the crisis, flowed back to the central depositories with remarkable quickness and in remarkable quantities. By the close of October in 1893 the legal tender holdings of the New York banks once more were at 60 millions, where they had stood in the early months of the year. The accumulation continued steadily, and before the year was out had raised these bank holdings to over 100 millions. For some time thereafter, and especially during the years 1894 and 1895, the legal tender reserves were heavy, remaining for many months at a time at a figure higher than 100 millions, and rising not infrequently to 120 and 130 millions. "Money" was a drug, and the rate of discount was at the minimum.

Evidently, the movement had its effect on the Treasury, too; and the accumulation of legal tenders in its hands was part of the same phenomenon,—the redundancy of the currency. But the accumulation did not appear so promptly in the Treasury, nor did it continue so uninterruptedly; and this side of the Treasury operations deserves to be followed with more detail.

A glance at the chart will show that during the years 1894 and 1895 the Treasury holdings of gold and of legal tenders move inversely to each other. When the paper line goes up, the gold line goes down; and, when the gold line goes up, the paper line goes down. Obviously, it is

to be expected that paper should accumulate as gold is drawn out. Notes being presented at the Treasury for redemption, they take the place of gold in the Treasury cash. The converse movement is not so simple. As gold accumulates, paper shrinks,—thus in the autumn of 1894 and again in the spring of 1895. The explanation is to be found partly in the ordinary position of the Treasury with relation to the Mint and partly in the extraordinary fiscal difficulties of the Treasury during the period in question. Ordinarily, gold which is brought to the Mint, whether from domestic mines or from abroad, is paid for by Treasury checks; and these may be settled at the clearing house in legal tenders, thus causing an exchange of gold for paper in the Treasury holdings.* But, in addition, the fiscal position of the Treasury from 1893 to 1896 compelled it to pay out large amounts from its cash on hand. Current expenses then exceeded current income, and some of the paper for which gold had been paid out was used in meeting the deficit. The precise form in which this came about was that the Treasury debit at the New York clearing house was large, and that the existing stock of cash (even though it had reached the government vaults through gold redemptions) had to be drawn on to pay the balances. The notes so paid out were turned into the already surcharged reserves of the New York

* "In ordinary times and under ordinary circumstances there is a natural flow of gold towards the Treasury, which is often limited only by the capacity of the Treasury to carry the specie. The product of our mines finds its way to the Mint, where it is paid for by checks; and these are presented at the counters of the sub-treasuries or through the clearing house in New York, as currency obligations. The result is an increase of the gold reserve and a diminution of the available balance of notes and silver certificates. Gold imported in the form of bullion or foreign coin takes usually the same course.

"Besides these two sources of ordinary gain to the gold reserve, there is another in the direct exchange of paper currency for the coin, where the paper is preferred for its greater convenience. Fortunate, indeed, has it been for the Treasury that, even during the most critical periods through which the country has recently passed, these currents of inflow have not been altogether checked." *Report of Treasurer of the United States, 1896, p. 9.*

banks. The plethora of money in New York made it easy for borrowers to secure loans, and then draw out cash (*i.e.*, legal tenders) without effect on the discount market or on foreign exchange. Whenever the balance of international payments caused gold to flow from the country (as happened to be frequently the case during this period), the legal tenders thus readily obtained were presented at the Treasury, and gold was so secured for shipment abroad. The same plethora made it easy for the timid or the speculative to secure cash for a "run" on the Treasury; and such a run, in the form of sudden and heavy demand for the redemption of paper in gold, took place, it will be remembered, in the first weeks of 1895, leading to the abrupt and much-criticised bond syndicate loan of February, 1895. Here we have the "endless chain," not simple, but intricate, having for its links the Treasury's duty to maintain gold payments, the fiscal deficit, the redundancy of the currency, the adverse balance in the country's international trade, and the general uneasiness bred by the repeated distress of the Treasury.

In 1896, however, the Treasury situation changes in one regard, at least. The great loan of February, 1896, when 100 millions of 4 per cent. bonds were sold for 111.4 millions of dollars, brought up the gold holdings once more. But now the legal tender holdings, which had risen to large amounts as paper had been redeemed by the Treasury, remain intact: they do not fall as the gold rises. It is not to be doubted, even though the Treasury reports are silent on the point, that this was the result of a deliberate policy. The heavy loans had brought in resources sufficient not only to meet the deficit in current expenses, but to impound a great quantity of legal tenders. Impounded accordingly they were to the amount of 100 millions and more,—locked up and put out of harm's way. Something of this sort had indeed been done in previous

years. In 1894 and in 1895 the redeemed legal tenders had not been paid out *in toto*. Considerable amounts had been kept after each successive loan; and the Treasury holdings had accordingly crept up gradually, though irregularly. In 1896 this impounding of the redundant paper was maintained deliberately, firmly, and on a large scale. As has already been noted, for nearly a year—from November, 1895, to October, 1896—the Treasury held steadily a hundred millions, more or less, of its own paper. Nor is it to be doubted that this procedure contributed largely to the attainment of the desired object,—the protection of the Treasury's gold holdings. The retention in the Treasury vaults of so great a quantity of legal tenders, coupled with the maintenance of the gold holdings at about the same amount, prevented excessive accumulation in the banks. The reserves of the New York banks, whether of paper or of gold, shrank to more moderate dimensions.* The loan market became firmer; and it was less easy to draw out legal tenders, whether as a means of getting gold for shipment abroad or for speculative operations.

With the autumn of 1896 a new turn in the Treasury

*The cash, or "reserve," held by the associated banks of New York at certain dates in 1893-96, was as follows:—

	Legal Tenders.	Specie.
October 3, 1893	44.3	80.8
December 19, 1893	96.5	103.5
February 24, 1894	110.0	97.5
May 4, 1894	127.4	100.1
July 18, 1894	130.3	91.0
October 2, 1894	114.6	92.0
December 19, 1894	100.4	72.1
March 5, 1895	87.5	69.6
May 2, 1895	89.2	69.7
July 12, 1895	111.1	64.3
September 28, 1895	97.9	61.7
December 13, 1895	81.6	67.5
February 28, 1896	86.5	60.3
May 2, 1896	84.5	59.5
July 14, 1896	86.3	62.3
September 26, 1896	72.0	54.3

situation takes place, marking a new turn in the industrial situation. A last glance at the chart will show that the legal tender holdings fall rapidly and heavily in the closing months of 1896; while those of gold rise sharply, though not in complete correspondence with the decline in the paper. The fortunate events of that period are fresh in the memory of all, and their consequences still affect the condition alike of the Treasury and of the country. The failure of crops in Europe and the abundance of harvests at home changed almost every aspect of the monetary situation. Heavy exports caused gold to flow in from abroad, and much of this found its way into the Treasury.* Large crops and good prices for cereals caused a flow of money to the West and a draft on the cash holdings of the New York banks. The same conditions led to a general revival of activity, at first slow and hesitating,—as is common under such circumstances,—and gradually stronger and surer. Hence the Treasury was able, not only to gain gold in one way and another, but to pay out legal tenders without any danger of their flowing back. Some of the links in the endless chain had now disappeared. The balance of international payments was no longer against the United States. Partly in consequence of the same causes that led to this fortunate change, the paper that was paid out by the Treasury was no longer obviously redundant. On the contrary, it was absorbed largely by shipments to the West, and remained in active circulation. Hence it was possible to meet the still-continuing deficit by paying out part of the accumulated legal tenders without encountering the ominous backflow of the previous years. A gleam of prosperity thus brightened the closing months of the second Cleveland administration,—too late to redeem it from association with depression and disaster, and only in time to enable it to turn over the Treasury in flourishing condition to its fortunate successor.

*See foot-note to p. 209 above.

We need not follow the course of events further. In 1897 the same conditions prevailed as in the latter part of 1896,—swelling exports, inflow of specie, revival of industry. The Treasury gold rose, its legal tenders stayed out. With 1898 the fiscal operations arising from the Spanish War affect the situation again, and open still another chapter in our financial history. The chapter which deals with the events consequent on the crash of 1893 closes with the year 1897, and we may proceed now to consider some of the lessons to be derived from our survey of those events.

First, as to questions of monetary theory. In the early decades of the century Tooke and his associates had maintained that convertible bank notes *per se* could not raise prices, their circulation being a consequence, and not a cause, of speculative activity and rising prices. But, they said, inconvertible paper and convertible paper issued by a government might be expected to have a different effect, since the mode of issue was different,—not by loan, but in the way of expenditure,—while the possibility of reflux was either absent or much weakened.* It may be a question whether so sharp a distinction can be maintained. No doubt it might be plausibly argued that the heavy issues of government paper in the Treasury notes of 1890 caused or at least bolstered up a régime of speculation and of sustained prices in 1890-92; but it would not be easy to prove that an equal issue of strictly convertible bank-notes would have had no effect or a less effect. I question whether a clear difference in effect could be satisfactorily proved in any specific case, still more whether any difference in degree could be even roughly measured. But, when we come to the other side of the movement,—the effects of currency issues in periods of depression,—the recent experiences of the

* See Tooke's *History of Prices*, vol. iv., part iii., chap. ii., especially sections 5, 6 (pp. 183-200).

United States may be set down as instructive, showing, as they do, that, when the down grade is reached, government issues are as powerless as bank issues to check the descent. Experience has amply shown that the greatest freedom and temptation among banks to extend their convertible note issues cannot prevent prices from falling during a period of sluggish industry, as, indeed, is also proved to be the case with their use of deposits. Abundant government paper is equally impotent. Elsewhere I have pointed out how the silver issues — dollars and certificates — under the act of 1878 followed rather than led the oscillations of industrial activity and of prices in 1879-89.* It might be suggested that these silver issues were ineffective because of the limitations on their availability, — the bulk and inconvenience of the actual dollars and the absence of legal tender quality in the certificates. But in recent years we have had another experiment with a kind of money which might be expected to do the utmost of which any paper based on specie was capable, — legal tender notes, issued in any desired denominations, and freely available and availed of in bank reserves as well in every-day circulation. Yet, clearly, they were unable to stem a tide of depression and of falling prices. The legal tenders so plentifully held by the banks and by the Treasury in 1894-96, and recurrently paid out, have flowed back into these reservoirs with a persistency almost fatal to the Treasury. Put forth by the government in its ordinary disbursements, they have come back into its hands in unmanageable quantities, until finally the only mode of maintaining the specie basis was to submit to the necessities of the case, and store away the redundant paper. And when, in the fall of 1896, they were paid out and stayed out, the change evidently was due to changed industrial conditions. The sudden turn in export trade

* *The Silver Situation in the United States*, pp. 72 et seq.

at that time caused an immediate call for currency for the crop regions, soon followed by a more permanent demand arising from a general revival of industry. The circulation of the legal tender paper, like that of the silver, has followed, not preceded, the decline in business activity, in speculative operations, in prices.

I will not undertake to discuss the wider questions in the theory of money suggested by these experiences. If convertible legal tender notes are thus—for some time, at least—impotent to stem a falling tide due to other forces, does the same hold good of inconvertible notes? And, if so, what becomes of the good old principle that the range of prices depends on the quantity of money? I apprehend that it will not be impossible to answer these questions or to fit the phenomena here under review into a properly grounded and properly qualified statement of the traditional theory. In its foundations that theory seems to me still sound; but it needs to be fitted to the great changes which the civilized world has gone through during the past hundred years. Thus an issue of inconvertible notes or a great increase of specie does tend to raise prices,—nay, it may sometimes be predicted, will raise prices; but by a mechanism slower in its operation and more uncertain as to the quantitative result than the common versions lead us to expect. Whether there are differences in rapidity as well as in certainty of operation between inconvertible and convertible paper, and again between convertible paper and specie,—these are more delicate questions, on which perhaps it is idle to expect a precise answer either from theoretical reasoning or from actual experience. But in any case it is certain that there are prolonged periods during which the actual and effective circulation of convertible notes, and of inconvertible notes and specie as well, is a consequence rather than a cause in the general working in the mechanism of exchange.

The second lesson to which this survey of our recent experience leads is a more obviously practical one,—the need of legislation that shall prevent the recurrence of the misfortune of 1894–96. The system or lack of system in our monetary legislation remains the same, and what has happened before may easily happen again. If it be suggested that this is but a remote possibility, the answer is that the experiences of 1894–96 do not stand alone. Much the same thing happened a decade before; and it may not be amiss to recall the less conspicuous, but no less instructive, events of that earlier date.

In the years 1884–86 the silver currency then being put forth under the act of 1878 led to phenomena almost precisely similar to those of 1894–96. There had been activity and speculation in 1880–83; and during that time the silver currency, though not always easy to manage, had on the whole found ready circulation. With the failures and reverses of 1884, it became redundant, precisely as the legal tenders (inflated as these had been by the issues under the act of 1890) became redundant in 1894. Then, also, the silver was hoarded and tucked away in the Treasury vaults, as the legal tenders were in 1896. That the one form of currency was so handled at the earlier date, the other at the later, does not affect the nature of the operation. In 1884–86 the silver certificates, partly because they were restricted to the larger denominations (none under \$10 until 1886), did not readily make their way into circulation, and hence tended to flow back into the Treasury. They were thus the form of currency which the Treasury was led to impound. In 1894–96 almost all of the silver certificates had been changed to small denominations, and were absorbed in the every-day circulation, whereas the legal tenders, inflated by the issues of 1890, were redundant, and, being presentable for direct redemption in gold, were a more obvious source of danger for the Treasury. Hence it was now their turn to be hoarded.

In one important respect, to be sure, the conditions of the earlier period were different from those of the later, and were more fortunate. The ordinary operations of the Treasury then yielded a surplus, and not, as in 1894-96, a deficit. Consequently, the excessive silver currency could be stowed away with comparative ease. I may be permitted to quote what I have said elsewhere in describing the operations of 1884-86:—

In the eighteen months between the beginning of 1885 and the middle of 1886 the government received over twenty-six millions in silver certificates which it did not reissue; paid out in addition some thirty-six millions for silver bullion which was coined into silver dollars, and in that form stowed away in the Treasury vaults; and materially increased its net holdings of gold. These enormous sums, of course, represent an excess of income over outgo. Notwithstanding the decline in its receipts as compared with earlier years, the government still had a surplus so large as to enable it to hoard sixty millions of silver currency and to add twenty-five millions to its holdings of gold. . . . In the financial history of any other country such a surplus would be considered a rare piece of good luck. We had it for so many years that we did not fairly realize what risks it enabled us to run without coming to grief.*

These same risks we continued to run, and we came to grief. In large part the same operations were carried on in 1894-96 as in 1884-86. Only in the later period there was no surplus in the ordinary operations of the Treasury, while the complications from the general business crisis were more severe. By successive violent measures—the four large bond sales—the last stage of disaster was avoided. The bond sales yielded not only enough to make up the deficit on current account, but an available surplus; and thus a round 100 million of legal tenders could be hoarded by the Treasury. When activity revived in 1886-87, the silver which the Treasury had accumulated could be let out with safety, and made its way

* *The Silver Situation in the United States*, p. 32.

into active circulation; and so, when activity revived in 1896-97, the hoarded legal tenders could be let out with safety, and made their way for the time being into active circulation.

What has thus happened twice already may easily happen again. The volume of paper and silver for which the Treasury is responsible remains huge, and its means of dealing with the mass are not sensibly improved. The oscillations in industrial activity will continue, and a volume of currency which is in active use at one time will prove redundant at another. A surplus in the Treasury may indeed enable a well-disposed executive to tuck away part of the excessive circulation for a time, and so give an artificial elasticity; but by what disturbing methods and with what uncertain results the history of the last twenty years amply teaches. In any case a continued surplus in the Treasury is equally undesirable and improbable,—undesirable, in that it tempts to extravagance; improbable, since both the special sources of the federal revenue and the oscillations of business activity make alternations of lean and fat periods inevitable. The statement, often heard, that the only thing needful in the way of currency legislation is to provide the Treasury with a surplus, indicates a sadly inadequate appreciation of the difficulties of the existing situation. Much more should be aimed for: in what direction and by what legislation has been repeatedly pointed out in the many projects for reform, strikingly similar in their essentials, which have recently been pressed on Congress. Let us hope that a clearer understanding of what has taken place under the existing conditions may lead to the adoption of measures for permanent betterment in those conditions.

F. W. TAUSSIG.

WHAT OUGHT TO BE CALLED MONEY?

It is a singular and, indeed, a significant fact that, although money was the first economic subject to attract men's thoughtful attention, and has been the focal centre of economic investigation ever since, there is at the present day not even an approximate agreement as to what ought to be designated by the word. The business world makes use of the term in several senses, while among economists there are almost as many different conceptions as there are writers upon money. Each author has some peculiar distinguishing mark of his own which he uses in determining what ought and what ought not to be included under the word. And so, even though one is not prone to attach great significance to definitions, and has no desire to suggest novel criteria of differentiation, he is practically obliged for the sake of clearness and intelligibility, in opening any careful study of a monetary subject, to make some confession of what he expects to mean when he uses the term; and he is in a sense expected to present his apologies or at least his reasons for not employing it in some of its other senses.

Although the word "money" has been made to designate conceptions of almost every conceivable degree of comprehensiveness, it is quite possible to trace certain broad lines of demarcation among them, and to group them all roughly under three, or possibly four, principal rubrics. In the first place, there are many writers in whose opinion the word "money" ought only to denote the *standard* currency; that is to say, the currency which has its own equivalent or "intrinsic" value, and for payments in which all notes and bills and other fiduciary certificates of exchange supposedly call. Secondly, there are others who extend the application of the term to all *legal* currency, which, in other words, means to all media of payment, proffered settlements by means of which will be recognized in the courts as sufficient. And then, finally, there is a great body of writers who, considering the

primary and essential function of money to be its serviceability as an intermediate of trade, assign the word to all devices which seem to them to be customarily acceptable for this purpose, regardless of whether or not they possess a substantial value of their own, or whether or not they have been given any peculiar authentication by the State. In general, in most of the great commercial countries of the world to-day, under the first conception of money, only the gold specie and perhaps a portion of the gold bullion would be subsumed; the second definition would include also the silver coins and other sorts of token money within certain legislative limitations,* together with such forms of bank or government notes as the law declared to be everywhere acceptable for payments; while money in the third sense would embrace, in addition to all of these, a variety of the other abundant expedients for effecting settlements which are especially designated by certain writers as "circulating credit," "representative" or "auxiliary" currency, or as "money substitutes."

At first thought one might naturally enough suppose that what should be meant by *standard* money and by *legal* money must be definitely determined by the legislation of a land, and that, although the denotations of the phrases might be very unlike at different times or in different countries, in a given situation they could elicit no real disparity of view. As a matter of fact, however, even with regard to these conceptions, anything like a complete agreement is as yet quite unattainable. In the case of *standard money*, not only may differences of opinion easily arise concerning the application of the expression to bullion† or to foreign coins, but in certain countries so great is the conflict between legislative declarations and governmental practice that even the question is left debatable as to just which metals the word "standard" ought to be applied. For example, in the United States both silver and gold are by law declared to be the standard metals; but gold is the only metal which is unlimitedly coined, and which enters

*The subsidiary coins are, of course, usually legal tender only when offered in limited sums. In the United States subsidiary silver coins are legal tender only to the amount of \$10; in England, silver coins of all sorts are only legal tender to the amount of £2; and, in Germany, simply to 20 marks.

† See, for instance, Sidgwick, *Principles of Political Economy*, p. 231, note.

the circulation at its own value. A somewhat similar problem is suggested by the recent experience of Austria, where, although gold had been declared the standard of value by explicit statement in the law of 1892, no gold was in circulation, and there was no currency at a par value with gold. With nations whose only currency is one of paper, still subtler difficulties are presented with regard to the use of the term.*

The conception of *legal money* is perhaps more exact, but even its denotation is not without some knotty points. One certain source of disagreement is involved in the question as to whether legal tender notes which are redeemable ought not perhaps to be excluded from the concept, inasmuch as they are a means of payment not necessarily acceptable when offered by their issuers.† And there are other mooted points, such as, for example, the question as to whether a new issue of paper currency which has become subject to a discount, but which, nevertheless, has a "forced circulation," may be regarded as legal money when offered in settlement of debts that were incurred before the issue or before the appearance of the discount.‡

But, when one looks beyond the boundaries which circum-

* See Knies, *Das Geld* (2d edition, Berlin, 1889), pp. 350 *et seq.*; also Hildebrand, *Theorie des Geldes*, p. 62.

† This is a consideration which has been repeatedly urged by Professor Adolph Wagner. "Das Merkmal der Uneinlösbarkeit gegen ein anderes Geld hängt, wie man bemerken wird, enge mit dem Zwangscurs zusammen. Nur bei einem *durchaus uneinlösbaren* Papiergeld . . . kann man von einem ganz allgemeinen Zwangscurs reden. . . . Ein einlösbares Papiergeld mit Zwangscurs . . . ist daher trotz des Zwangscurs kein eigentliches Papiergeld, mithin keine eigene Währung, weil der Zwangscurs ausdrücklich nur partiell ist und von demjenigen welcher dabei am meisten interessirt wäre, nämlich von der emittenden Bank, oder dem emittenden Staat nicht geltend gemacht werden kann." *Geld und Credittheorie der Peel'schen Acte*, pp. 65, 66.

The same argument is also to be found in Wagner's article on *Papiergeld* in Bluntschli's *Staatswörterbuch*, in his article on *Bankwesen* in Schönberg's *Handbuch*, i. pp. 471-474, and in his *Beiträge zur Lehre von den Banken*, p. 34 *et seq.*

‡ Practically, the same idea, that inconvertibility as well as the so-called legal tender quality is a requisite of real paper money, though not so explicitly declared, is nevertheless traceable in many passages of Tooke, Fullarton, and McCulloch.

§ See Knies, *Das Geld* (2d edition), p. 406; also Savigny, *Obligation-Recht*, p. 409.

Among writers who have adhered to a restricted application of the term "money" to the standard conception may be mentioned Huskisson, J. S. Mill,

scribe the "standard" and the "legal" conceptions, one finds a still greater profusion of opinions as to what in general ought to be made the differential mark of money, as to whether, in particular cases, this or that agent of payment ought to be comprehended under the concept, and as to just where the limiting line of inclusion ought logically, or for the sake of convenience, to be drawn. There are certain very common contrivances for making payments which are not serviceable under peculiar conditions of the market. There are other familiar devices which are not available for all sorts of payments, or which cannot circulate outside of particular boundaries; and there are many which are only capable of effecting settlements when some further formality has been fulfilled. Each of these has suggested anew the problem as to how far those expedients which perform the monetary functions only when certain conditions are realized ought to be designated as money; and the answers which different persons have made have varied widely according to individual inclinations and personal estimates of convenience and expediency.

Popular opinion to-day, we believe, has for the most part abandoned the limitations of what we have called the legal and standard definitions, and goes so far as to recognize as money all familiar means of payment which pass freely from hand to hand in settlement of obligations without the fulfillment of any further formality. It accepts as money all of those media of exchange which circulate without the necessity of indorsement, or of registration in books, or of conformity to any other condition than the mere transfer of the certificates of value from one person to another. It includes under the term not only coin and legal tender notes, but other government notes as well, and other issues of banks; at any rate, the

Chevalier, Hildebrand, Knies. See especially Knies, *Das Geld* (2d edition), pp. 238-275, 339-395.

The legal conception has had its supporters, not only among jurists, but in the ranks of the economists as well. It was adopted, for example, by Storch, Fullarton, Tooke, and McCulloch, and is employed by Lexis and Wagner among others to-day. In particular, see Tooke's chapter on "The Error of Confounding Paper Credit with Paper Money" in the *History of Prices* (vol. iv. pp. 171-183), McCulloch's note on "Money" in his edition of the *Wealth of Nations*, and Lexis's article on *Papiergeld* in the *Handwörterbuch der Staatswissenschaften*.

issues of banks which stand under peculiar legislative control, and indeed, upon occasion, also the notes of other banks which are universally known and of indubitable credit. Nor is this simply the conception of the every-day world. From the time of Adam Smith to the present day there has been a continuous line of economic investigators who have employed the word "money" with this wider denotation, and at present this interpretation has become so wide-spread and so natural that it would be no exaggeration, I think, to say that among the English economists of our time there are only a comparative few who would not admit under the term "money" at least as many devices as the every-day world makes the word denote.

There are writers, however, who see no distinction of especial economic significance in the quality of being transferable without indorsement or registration, and who look upon a variety of other agencies as equally efficient media of exchange. Some of them, indeed, are willing to leave the word "money" undisturbed in its popular denotation, and resort to other expressions, such as "currency" or "circulating medium" to denote the more comprehensive idea. But there are others who are inclined to apply the term "money" much more freely than popular usage sanctions, and who chose to make it stand generically for devices of exchange. Several treat the deposit accounts of banks as money, but deem it inconvenient to include other fiduciary means of settlement.*

A few have gone so far as to make the word also represent

* This seems to be the view of Sidgwick, who shows with great clearness how, "in such a country as England, where deposit banking is fully developed and payment by cheques customary, the greater part of such money must consist of what has been called 'money of account'; that is, of bankers' liabilities or obligations to pay coin on demand, not 'embodied' or represented otherwise than by rows of figures in their books." It must be borne in mind, too, he adds later, that the medium of commercial exchange also "consists to a great extent of *merchants'*, not *brokers'*, obligations; that is, of bills of exchange, so far as they still circulate among traders and are not at once discounted. Again, there are certain widely accepted securities—the bonds of some governments, of some railways, etc.—which are so much more convenient for transmission than bullion that they are frequently used as substitutes for bullion in the payment of international debts. . . . Since, however, neither *merchants'* debts nor debts of governments form a medium of exchange currently accepted by society generally within a certain local range in final settlement of debts, it seems to me most convenient to call them not money, but substitutes for money." Sidgwick, *Principles of Political Economy*, London, 1883, pp. 233, 234, 245, 246.

mercantile bills, exchequer bills, the promissory notes of private persons, stock certificates, and, in short, all fiduciary devices to the extent that they actually perform the functions of a medium of payment and of trade; and, occasionally, a writer may be found who has gone even further, and has seemed to be of the opinion that in the end all goods are of the nature of money in so far as they possess a value in exchange.

Such is the bewildering confusion of language which confronts the student of monetary problems on the very threshold of his investigations. At least, three different courses are open to his choice. In the first place, he may give up altogether the attempt to specify what is meant by the word "money,"* and try to avoid the use of it whenever differences of opinion about its interpretation would be of consequence, employing in these relations more precise expressions, such as coin, legal tender, and currency, to denote the particular concepts of which he may be speaking. Or, secondly, he may use the term "money" indifferently for several or all of these conceptions, precluding confusion, where precision of language is of moment, by insuring that it is certain, either from the context or through explicit statement, in what sense the word is used. This may very often be accomplished by the simple use of prefixed words to which definite ideas have been attached, as, for example, in the expressions "standard money," "legal money," "popular money," and so on. Or, finally, he may select from the various definitions of the word "money" that one which, on grounds of general usage, convenience in handling, and the exigencies of language, seems preferably associated with the term, and apply the word exclusively to this, relegating to other words the designation of the other conceptions. In

*Jevons, for example, seems to have given up the attempt to define what constitutes money. "Much ingenuity," he said, "has been spent upon attempts to define the term 'money,' and puzzling questions have arisen as to the precise kinds of credit documents which are to be included under the term. . . . All such attempts at definition seem to me to involve the logical blunder of supposing that we may, by settling the meaning of a single word, avoid all of the complex differences and various conditions of many things, each requiring its own definition. . . . By calling some money and some not, we do not save ourselves from the consideration of their complex legal and economical differences." *Money and the Mechanism of Exchange*, p. 248.

favor of the first procedure, very little is to be said, despite the fact that it has been the method followed by at least one conspicuous writer. It is the wasteful discarding of an effective word in a region already suffering on account of the scantiness of its terminology. The second course mentioned — the use of the word "money" for a number of concepts of varying comprehensiveness — has the sanction of many precedents, since it is common enough for the definitions and denotations of class names to fluctuate in accordance with the particular ends or functions or contrasts which are held in mind in formulating them. But this employment of the term, like the first mentioned, also fails to give the word its greatest possible scientific value, because of its inexactness and the inevitable liability to meretricious reasoning which can so easily result from the confusion of its different senses. The third alternative — the application of the word "money" to a single definite idea, with its consequent well-defined reference to certain specific objects — has one paramount advantage. It makes for precision. It is only by selecting one definition and abiding by it that one can avoid terminological confusion, preclude misunderstanding, and give to the term "money" a scientific standing and importance. And on this account the last-named alternative seems preferable to either of the other possible ways of using the term, even though it may appear to involve a more or less arbitrary selection of the designation to be employed.

To which, then, of the many ideas that have been here presented, ought the word "money" to be assigned?

The choice of the particular conception to which the term is to be awarded is of course not open to an incontestable decision. It must, from its very nature, remain largely a matter of individual judgment and of relative expediency. No claim therefore of sacerdotal infallibility attaches to the use of the word which is here selected; and no pretensions are made with regard to it, except that it has been chosen after considerable deliberation and a careful balancing of alternatives.

The confinement of the word "money" to what has been alluded to as *standard* currency would seem inadvisable, if for no other reason because it involves as a corollary the very

unsatisfactory assertion that a country without a metallic currency is *ipso facto* destitute of money. But it must further be observed that there is no lack whatever of words to express this very conception, that one may refer to it easily and intelligibly as "coin" or "standard coin," or by the simple naming of the particular metal which serves as a standard. An addition to the terminology at this point would therefore be superfluous. The application of the word to the *legal* conception is open to similar criticisms. It involves a narrower denotation than is justified by familiar usage, and one could scarcely maintain that it is sanctioned by the exigencies of language, inasmuch as we already have a thoroughly adequate technical name for this idea in the phrase "legal tender." On the other hand, the stretching of the word to make it cover such means of trade as bank deposits and bills of exchange presents itself as even more objectionable, primarily because it is in the highest degree discordant with the traditional way of employing the term, and must inevitably tend therefore to arouse suspicion, provoke antagonism, and entail misunderstanding, and because at the same time there are plenty of other expressions, such as "currency," "circulating medium," and "means of payment," which can be used quite as effectively to represent the same all-inclusive concept. On these accounts it is difficult to see any sufficient reason for attributing another meaning to the word "money" than that for which it stands in the popular mind. The quality of circulating freely without the friction entailed by registration or indorsement may not present a distinction of the greatest economic significance; but it appears to have been accepted as the distinguishing mark of money by Adam Smith and Ricardo, as also by other noteworthy writers, and at the present day it forms really the decisive characteristic of money for all unsophisticated uses of the word.* At

* See Tooke's criticism of this conception of money, *History of Prices*, vol. iv, pp. 154-165; also Fullarton's discussion of the subject from a similar standpoint in his *Regulation of Currencies* (1844), pp. 28-44. Not unlike are the criticisms to be found in Chevalier's *La Monnaie* (2d edition, 1866), pp. 57-64, and in the writings of Wagner and Sidgwick, already referred to.

The use of the term in the "popular" sense appears in the *Wealth of Nations*, Book I, chap. II, and in Ricardo's *Principles*, chap. xxvii.

It was argued for also by Torrens, *Sir Robert Peel's Act of 1844*, London, 1857, chap. I; by Lord Overstone, *Tracts and Other Publications*, 1857, pp. 190, 200;

the same time it obviously points to a distinction which is not without economic consequence. For, while it may be true that no sharp line can be drawn between the functions of money in this sense and those of several other forms of currency, there are unmistakably certain broad general differences, too important to be neglected, between their respective modes of operation,—differences based both upon the size and sorts of the transactions which they perform, and upon the varying rapidity and duration of their circulation.

It would appear then that, by using the term in this sense, one will incur less terminological censure than by any other course, will give the least possible occasion for misinterpretation, and will make a technical name available for an idea of some importance which is not otherwise easily designated.

A. P. ANDREW.

and by Sir Robert Peel and most of the other defenders of the English Bank Act. In opening his discussion of the principles of the act, Peel said: "In using the word 'money,' I mean to designate by that word the coin of the realm and promissory notes payable to bearer on demand. I do not include in that term bills of exchange or drafts on bankers or other forms of credit." The fact that they "pass from hand to hand without indorsement" he spoke of as a significant distinction of bank-notes. This, too, was substantially the conception of Francis A. Walker; see his *Money*, pp. 395-409, and *Money, Trade, and Industry*, pp. 1-17.

NOTES AND MEMORANDA.

INDUSTRIAL COMMISSIONS IN THE UNITED STATES AND IN AUSTRIA.

Under an act of Congress, approved June 18, 1898, the federal government has undertaken to follow the example of England, France, and Belgium in establishing a commission for the purpose of studying problems relating to industry with a view to formulating remedial legislation. The act provides that it shall be the duty of the commission to investigate questions pertaining to immigration, to labor, to agriculture, to manufacturing, and to business, and to report to Congress, suggesting such legislation as it may deem best upon these subjects.

The commission consists of five members each from the Senate and House of Representatives, and nine other persons, who shall fairly represent the different industries and employments, appointed by the President. The members appointed on the part of the Senate are Senators Kyle, of South Dakota; Penrose, of Pennsylvania; Mantle, of Montana; Mallory, of Florida; and Daniel, of Virginia. Those appointed on the part of the House are Representatives Gardner, of New Jersey; Lorimer, of Illinois; Livingston, of Georgia; Bell, of Colorado; and Otjen, of Wisconsin. The members appointed by the President are Messrs. Andrew L. Harris, of Ohio; S. N. D. North, of Massachusetts; Ellison A. Smyth, of South Carolina; John M. Farquhar, of New York; Eugene D. Conger, of Michigan; Thomas W. Phillips, of Pennsylvania; Charles J. Harris, of North Carolina; M. D. Ratchford, of Ohio; and John L. Kennedy, of Washington, D.C.*

*Of these gentlemen, Mr. North is the secretary of the National Association of Wool Manufacturers, and was special agent for the Eleventh Census. Mr. Ratchford is president of the United Mine Workers' Union; and Messrs. Farquhar, Kennedy, and Donnelly (the secretary) have also been associated with labor or-

The commission has organized, with Senator James H. Kyle as chairman, Thomas W. Phillips as first vice-chairman, John J. Gardner as second vice-chairman, P. H. Donnelly, of Chicago, as secretary, and William E. Sackett, of New Jersey, as chief clerk and disbursing agent. The headquarters of the commission are in the Bliss Building, Washington, where all communications intended for it or for the various sub-commissions and officers should be addressed.

Five sub-commissions have been created, as follows:—

1. On Agriculture and Agricultural Labor, Andrew L. Harris, chairman.
2. On Conditions of Labor and Capital employed in Manufacturing and General Business, Ellison A. Smyth, chairman.
3. On Conditions of Labor and Capital employed in Mining, John W. Daniel, chairman.
4. On Transportation, Thomas W. Phillips, chairman.
5. On Statistics, S. N. D. North, chairman.

The commission also has three standing committees, as follows:—

1. On Organization, S. N. D. North, chairman.
2. On Business, Eugene D. Conger, chairman.
3. On Procedure, John J. Gardner, chairman.

The chairman of the commission, Senator James H. Kyle, is chairman of the Senate Committee on Education and Labor; and the second vice-chairman, Representative John J. Gardner, is chairman of the House Committee on Labor.

The purpose of the commission, as declared in a report of its Committee on Procedure adopted by the full commission, is to ascertain the nature of the existing legislation of the several States and of the United States bearing upon industrial conditions, the actual operation of that legislation in its relation to the workingman, to the manufacturer and business man, and to the consumer, the character and effects of similar legislation in foreign countries, and how far it is applicable or desirable in the United States, and what legislation, if any, along new lines, is practicable or desirable for the improvement of

ganizations. Mr. Harris is a farmer, formerly Lieutenant governor of Ohio. Messrs. Smyth, Conger, Phillips, and Harris are in business life. Messrs. Farquhar and Phillips are ex-members of Congress.—*Editor.*

industrial conditions, with a view to determining how far it is possible to frame uniform industrial laws, the adoption of which can be recommended to Congress and to the legislatures of the several States.

The government has not before commissioned any office to discuss proposed solutions of labor or other social problems or to make recommendations as to reform legislation. The establishment of the Industrial Commission is the first to attempt to ascertain, for the guidance of Congress and State legislatures, the bearing of laws and to apply the information in hand.

Each sub-commission will prepare a syllabus, in accordance with which testimony will be taken. Prior to the work of the sub-commissions the general commission will consider the subjects of combinations and trusts, education, immigration, taxation, and other kindred questions.

The ultimate results of the work of the commission in each of the fields of its inquiries are to be presented for approval by the full commission before they are transmitted to Congress, with such recommendations as the whole commission may decide to be appropriate and valuable.

The commission has also decided that it is impracticable to print all the testimony that may be offered to the several sub-commissions; but all testimony will be carefully indexed, both by subject and by witnesses, so that it will be easy for the members and for others to turn at any moment to any testimony which shall be taken. When the work of the commission in collecting information and data is completed, an enormous amount of service will be required to digest and formulate the matter collected. The commission is already actively engaged in its arduous undertaking, and the results will be looked for with great interest.

By virtue of an imperial decree dated July 21, 1898, a Bureau of Labor Statistics was created in Austria, and began operations October 1, 1898. Dr. Victor Mataja has been appointed its chief. The appointment is an eminently fit one, and insures the success of the new office.

The ministerial proclamation announcing the formation of

the bureau defines its duties to be "the systematic collection and preparation of statistical data relating to labor, and the periodical publication of the same for the purposes of social and economic legislation and administration." As the bureau was not created by legislative enactment, it has no compulsory powers. Its duties and work are, thus, along the line of those of kindred offices in the United States, Great Britain, France, Belgium, New Zealand, and other countries. But a new body, having an auxiliary function to work in connection with the Bureau of Labor Statistics, is the result of the ministerial act creating the bureau. This is a permanent Auxiliary Council of Labor, consisting of thirty-two members, eight of whom represent the various government departments. Of the remaining twenty-four, who are appointed by the Ministry of Commerce, eight are employers, eight are workingmen, and eight are specialists. The auxiliary commission is to give advice as to the subjects to be taken up by the bureau for investigation and in facilitating the carrying out of the work delegated to the bureau by bringing together for consultation representatives of the various interests affected.

It is the intention of the government that the bureau shall take up the preparation of annual strike reports, statistics of labor organizations, the question of the reform of accident and sick insurance, and the like, and also the publication of a periodical labor bulletin. The Auxiliary Council publishes its proceedings for each meeting, and these will be consolidated in the form of an annual volume.

CARBOLL D. WRIGHT.

DEPARTMENT OF LABOR, WASHINGTON.

MESSRS. MACMILLAN, of New York, announced for early publication *The Development of English Thought: A Study in the Economic Interpretation of History*, by Professor Simon N. Patten of the University of Pennsylvania; and *The Theory of the Leisure Class: An Economic Study in the Evolution of Institutions*, by Professor Thorstein Veblen, of the University of Chicago. Professor Patten will trace the development of thought in England since the Reformation, with regard to social progress and economic conditions. Professor Veblen will consider the leisure class as an economic factor in modern life, giving attention to the cultural aspects of the institution only so far as they bear on economic life. Both volumes will find a cordial welcome and an appreciative interest alike among students of economics and of philosophy.

Messrs. J. B. Lippincott, of Philadelphia, announce, also for early publication, a volume on *Value, Price, and Distribution*, by Charles W. MacFarlane, in which the whole range of the theory of exchange and distribution will be traversed, and the conclusions of the author, already published in part in periodical literature, will be set forth systematically and at large.

THE Cambridge University Press will publish shortly *The Economic Works of Sir William Petty*, edited, with introduction and notes, by Professor Charles H. Hull, of Cornell University. The editor has attempted to bring together all of Petty's published tracts of economic interest, and has added a *Treatise of Ireland*, from Petty's manuscript, and the *Observations upon the Bills of Mortality* of Captain John Graunt.

THE fourth edition of Professor Marshall's *Principles of Economics* (Volume I.), published during the quarter by Messrs. Macmillan, contains revisions in the mode of presentation, but, as in the second and third editions, no considerable changes of substance. The preface states that, "in the hope that the changes are nearly final, the present edition has

been made a large one." Professor Marshall's readers may now hope that he will be able to make rapid progress in the preparation of the second volume.

Professor Schmoller has published another volume of collected essays and papers, chiefly reprinted from among his contributions to the *Jahrbuch für Gesetzgebung*. The present series deals mainly with the economic history of Brandenburg and Prussia in the seventeenth and eighteenth centuries, but contains also papers on more recent topics, such as that on the organization and function of exchanges. Professor Brentano has also begun the publication of a series of his collected essays, of which the first volume will deal with questions relating to land and its inheritance.

Professor Seligman will publish shortly a revised and enlarged edition of his monograph on *The Shifting and Incidence of Taxation*, first printed in 1892 in the publications of the American Economic Association.

MESSRS. GIARD & BRIÈRE, of Paris, announce the publication of a *Bibliothèque d'Économie Politique*, which, like the *Bibliothèque Internationale de Sociologie*, will put before the French public the work both of their own and of foreign writers. The first volume in the new collection is a translation of Cossa's well-known guide to the history and literature of economics. Other translations announced as in press are of Pantaleoni's *Principles*, Schmoller's *Grundfragen* (as lately republished), K. Menger's volume on method, and A. Menger's on the right of labor to product.

THE *Bulletin of the Department of Labor* for September publishes some statistics as to the course of wages from 1870 to the present time in the United States, Great Britain, France, and Belgium, with a general result similar to that yielded by the statistics on the same subject for Massachusetts and for France, of which note was made in the last issue

of this Journal.* Money wages in this period have not shown the downward tendency of prices; they have held their own, and have even advanced. The figures now published by the Department of Labor for the United States were secured by its own independent inquiries, based on the pay-rolls of establishments continuously in operation through the period. Those for the three foreign countries (Great Britain, France, Belgium) were furnished, at the request of the department, by the several statistical bureaus of these countries. Naturally, information was secured for a greater number of occupations and localities in the United States than in the other countries; and the *Bulletin* notes that the comparative scantness of the data for foreign countries makes it needful to use them with caution. A general average of the results for each country is given; inevitably, as such averages must be, a lumped result of widely varying figures, and hence again to be used with caution; yet doubtless significant so far as the general trend of money wages is concerned, and confirmed on this point by the detailed tables for individual occupations and places.

The summarized table is as follows:—

Average Daily Wages in Gold in Certain Cities of the United States, Great Britain, France, and Belgium.

Year.	Great Britain.	Paris, France.	Liège, Belgium.	United States.
1870	\$1.30	\$1.06	\$0.59½	\$2.20½
1871	1.30½	1.06½	.60½	2.39½
1872	1.33	1.07½	.61	2.45
1873	1.35	1.08½	.64	2.35½
1874	1.36½	1.08½	.65½	2.30½
1875	1.38	1.11½	.63½	2.24½
1876	1.40½	1.12	.63	2.18
1877	1.41½	1.15½	.62½	2.24½
1878	1.40½	1.16½	.60½	2.30½
1879	1.37½	1.16½	.61½	2.32
1880	1.37½	1.21½	.62½	2.34
1881	1.37½	1.22½	.63½	2.40½
1882	1.39½	1.24½	.65½	2.44½
1883	1.40½	1.24½	.65	2.47
1884	1.40½	1.24½	.64½	2.49
1885	1.39½	1.24½	.63½	2.47½
1886	1.39	1.25½	.63	2.47½

* See the note on "Recent Statistics on Wages" in this Journal, October, 1896, p. 105.

Year.	Great Britain.	Paris, France.	Liège, Belgium.	United States.
1887	\$1.39½	\$1.25½	\$0.62½	\$2.49½
1888	1.40	1.25	.63½	2.50½
1889	1.40½	1.26½	.62½	2.51½
1890	1.41½	1.31½	.63½	2.52½
1891	1.43½	1.31½	.65	2.54½
1892	1.43½	1.31½	.64	2.56
1893	1.44½	1.32	.64½	2.54½
1894	1.44½	1.32½	.65½	2.49½
1895	1.45	1.32½	.65½	2.47½
1896	1.49	1.33	.66½	2.45½
1897	—	—	—	2.44½
1898	—	—	—	2.43½

The upward movement is most marked in France, or rather in Paris, where there would seem to have been a rise of 25 per cent. In Great Britain and Belgium the rise appears to have been about 10 per cent. So in the United States the years 1895-98 show a range higher than that of 1870 by about 10 per cent., and this notwithstanding the fall in money wages which took place after the crisis of 1893.

It will be observed in the figures for the United States that a sharp advance in money wages is indicated between 1870 and 1872, and that, as compared with 1872, there is virtually no change in the period 1895-98. A similar relation between wages in 1872 and in very recent years was brought out in the statistics collected by the Massachusetts Bureau, these having shown that for the State of Massachusetts the movement between 1872 and 1897 had been down rather than up, and slight in any case. The year 1872, it may be inferred, had an unusually high scale of money wages, measured in gold. The explanation no doubt is mainly that this was the last year of speculative inflation preceding the panic year 1873. But it is possible that the correction for the gold premium may need also to be considered. At that period—a peculiar one in many ways—the actual advance in money prices and incomes and the premium on gold seem not to have moved together; and, at all events, there is here a complication, of significance both for the economic history of the times and for the theory of paper money, which needs to be considered in the interpretation of this part of the statistical material.

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[Chiefly published or announced since October, 1898.]

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- DEVINE (E. T.). *Economics [prepared for the use of the University Extension Society.]* New York: Macmillan Co. 16mo. pp. 404. \$1.
- FOURNIÈRE (E.). *L'Idéalisme Social. [In Bibliothèque des Sciences Sociales.]* Paris: F. Alcan. 8vo. 6 fr.
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- GIDDINGS (F. H.). *The Elements of Sociology.* New York: Macmillan Co. 8vo. \$1.10.
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